Condensed Financial Statements
as at 31 March 2017

(unaudited)

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

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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 2016. These reports should be read in conjunction with the Annual Report for 2016.

Summary of Financial Position

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

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Interest income	**2,319**	1,925	9,552
Interest expenses	**446**	270	2,026
Net interest income	**1,873**	1,655	7,526
Expenses (income) in respect of credit losses	**101**	(123)	(125)
Net interest income after expenses in respect of credit losses	**1,772**	1,778	7,651
Non-interest income			
Non-interest financing income	**255**	24	1,282
Commissions	**1,018**	988	3,967
Other income	**14**	20	159
Total non-interest income	**1,287**	1,032	5,408
Operating and other expenses			
Salaries and related expenses	**1,291**	1,242	5,422
Building and equipment maintenance and depreciation	**435**	394	1,697
Other expenses	**324**	354	1,461
Total operating and other expenses	**2,050**	1,990	8,580
Profit before taxes	**1,009**	820	4,479
Provision for taxes on profit	**388**	371	1,717
Profit after taxes	**621**	449	2,762
Bank's share in profits of companies included on equity basis after tax	**10**	19	66
Net profit			
Before attributing to non-controlling interests	**631**	468	2,828
Attributed to non-controlling interests	**(9)**	(9)	(37)
Attributed to shareholders of the Bank	**622**	459	2,791
Basic and diluted earnings per share attributed to shareholders of the Bank (in NIS):			
Basic net profit	**0.41**	0.31	1.85
Diluted net profit	**0.41**	0.31	1.84

Total assets under management of the Group (both balance sheet and off-balance sheet*) amounted to NIS 1,304 billion at 31 March 2017, compared with NIS 1,259 billion at the end of 2016.

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

The consolidated balance sheet data are as follows:

	31 March 2017	**31 March 2016**	31 December 2016
	Unaudited		Audited
	NIS millions		
Assets			
Cash and deposits with banks	**68,275**	55,648	74,757
Securities	**77,959**	78,727	77,201
Securities borrowed or purchased under agreements to resell	**903**	1,621	1,284
Credit to the public	**268,172**	267,672	265,450
Allowance for credit losses	**(3,465)**	(3,539)	(3,537)
Credit to the public, net	**264,707**	264,133	261,913
Credit to governments	**620**	412	642
Investments in companies included on equity basis	**878**	899	901
Buildings and equipment	**3,016**	3,060	3,147
Intangible assets and goodwill	**17**	17	17
Assets in respect of derivative instruments	**11,032**	13,150	10,654
Other assets	**7,891**	7,890	8,087
Total assets	**435,298**	425,557	438,603
Liabilities and equity			
Deposits of the public	**341,663**	330,354	346,854
Deposits from banks	**4,493**	4,441	3,394
Deposits from governments	**770**	808	900
Securities lent or sold under agreements to repurchase	**481**	845	539
Debentures, bonds and subordinated notes	**22,689**	24,810	22,640
Liabilities in respect of derivative instruments	**11,272**	13,996	10,677
Other liabilities	**21,309**	20,650	21,885
Total liabilities	**402,677**	395,904	406,889
Non-controlling interests	**366**	340	367
Equity attributable to shareholders of the banking corporation	**32,255**	29,313	31,347
Total equity	**32,621**	29,653	31,714
Total liabilities and equity	**435,298**	425,557	438,603

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

	31 March 2017	31 March 2016	31 December 2016
Credit to the public, net, to total balance sheet	**60.8**	62.1	59.7
Securities to total balance sheet	**17.9**	18.5	17.6
Deposits of the public to total balance sheet	**78.5**	77.6	79.1
Deposits of the public to total credit, net	**129.1**	125.1	132.4
Total equity to risk assets (a)	**14.82**	14.28	15.21
Tier 1 capital to risk assets	**11.02**	9.96	11.15
Leverage ratio	**6.85**	6.35	6.77
Liquidity coverage ratio	**131**	125	132
Equity (excluding non-controlling interests) to balance sheet	**7.4**	6.9	7.1
Net profit to average equity (excluding non-controlling interests) (c)	**8.1**	6.6	9.3
Rate of provision for tax on the profit before taxes	**38.5**	45.2	38.3
Expenses (income) in respect of credit losses to credit to the public, net (c)	**0.15**	(0.19)	(0.05)
Of which: expenses in respect of collective allowance to credit to the public, net (c)	**0.20**	0.23	0.24
Expenses (income) in respect of credit losses to total risk of credit to the public (c)	**0.10**	(0.12)	(0.03)
Interest income, net to total balance sheet (c)	**1.73**	1.56	1.72
Total income to total assets (b)(c)	**2.94**	2.55	2.95
Total income to total assets managed by the Group (b)(c)(d)	**0.97**	0.89	1.03
Total operating and other expenses to total balance sheet (c)	**1.90**	1.88	1.96
Total operating and other expenses to total assets managed by the Group (c)(d)	**0.63**	0.66	0.68
Net profit to total average assets (c)(e)	**0.57**	0.43	0.64
Interest margin	**1.74**	1.67	1.75
Operating and other expenses to total income (b)	**64.9**	74.1	66.3
Non-interest income to operating and other expenses	**62.8**	51.9	63.0
Non-interest income to total income (b)	**40.7**	38.4	41.8

(a) Capital – with the addition of non-controlling interests and sundry adjustments.
(b) Total income – net interest income and non-interest 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 and estimates relating to the future, which are defined in the Securities Law, 1968, (hereinafter - "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.

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy[1]

The Gross Domestic Product grew in the first quarter of 2017 by an annual rate of about 1.4%, in real terms. This slow growth rate was mainly attributable to a decrease in private consumption and investments in fixed assets which were affected by data on vehicles which were particularly high in the fourth quarter, while the expense in respect of their purchase fell sharply in the first quarter of the year.

The global economy

In April 2017, the International Monetary Fund (IMF) revised the forecast for the development of growth around the world in 2017, according to which the global economy is expected to grow in 2017 by about 3.5%, compared with about 3.1% in 2016. Growth in the United States and in the Euro Area in 2017 is expected to amount to about 2.3% and 1.7%, respectively, similarly to the forecast made in January 2017 (except for a slight increase of 0.1% in the forecast for the Euro Area).

The State Budget and its Financing

During the first quarter of the year, the Government's budget deficit amounted to some NIS 2.4 billion, compared with a surplus of about NIS 0.9 billion in the corresponding period last year, with the deficit target for the whole of 2017 standing at NIS 36.6 billion (2.9% of GDP), while the deficit in the past 12 months ended in March 2017 amounted to the Treasury's estimate of about 2.3% of GDP. It appears that part of the increase in the deficit is attributable to a sharp increase the expenses of the security system against a background of technical changes in the structure of the budget and changes in the distribution of expenses over the year.

On 18 April 2017, the Treasury announced the "Net Family" plan, which includes tax benefits for working families and a reduction in quotas. The cost of the plan is estimated at about NIS 4 billion per annum and, according to the Treasury's announcement, it retains the budget framework, without increasing the deficit.

Foreign trade and capital movements

Israel's trade deficit in 2016 amounted to about US$ 13.1 billion, an increase of about US$ 5.3 billion, compared with the deficit in 2015. 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 months of January-March 2017, direct investments in Israel by foreign residents, via the banking system, amounted to about US$ 1.6 billion, while financial investments of foreign residents amounted to about US$ 2.6 billion. On the other hand, total investments of Israeli residents abroad (direct investments via the banks in Israel and financial investments) amounted to about US$ 3.1 billion, such that there was a significant gap between total investments incoming to Israel and total outgoing investments in foreign currency.

Exchange Rate and Foreign Currency Reserves

In the first three months of the year, the shekel appreciated against the dollar by a rate of about 5.5%, against the pound sterling by 4.2%, and against the euro, by about 4.0%. Against this background, the real rate of exchange of the shekel against the basket of currencies (reflecting Israel's trade with the rest of the world) was at its lowest level in the past 15 years.

Foreign currency balances of the Bank of Israel at the end of March 2017 amounted to about US$ 103.3 billion, compared with about US$ 98.5 billion at the end of December 2016.

In the first quarter of 2017, foreign currency purchases by the Bank of Israel, as part of a program of purchases to offset the effect of gas production on the exchange rate, totaled about US$ 0.25 billion. In total, the Bank of Israel purchased foreign currency amounting to about US$ 3.0 billion during this period.

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

Inflation and Monetary Policy

The consumer price index ("published for the month") increased by about 0.1% in the first quarter of the year, while in the past 12 months ended March 2017, the index increased by about 0.9%. This rate is below the lower limit of the Government's price stability target range of 1% - 3%, although it is a moderate change in the trend following a long period of negative change in the index, against the background of the moderation of the effect of factors of a non-recurring nature on the index.

The consumer price index ("last published index") fell by about 0.2% in the first quarter of the year.

During the first quarter of the year, there was no change in the Bank of Israel interest rate, remaining at 0.1%, a level retained in the interest announcement published at the beginning of April 2017. The Monetary Committee has stated that it intends to leave monetary policy unchanged as long as necessary to maintain the inflationary environment within the target area.

Israeli capital market

The shares and convertible securities index fell by about 1.4% in the first quarter of 2017, following a decrease of about 11.0% in 2016.

Average daily trading volumes of shares and convertible securities increased in the first quarter of 2017 by 29.2%, compared with the average for 2016, and amounted to about NIS 1,639 million.

The Government bond market was characterized during the first three months of 2017 by a mixed trend. The index-linked Government bonds fell by about 0.6%, while unlinked Government bonds increased by a similar rate of about 0.6% (the fixed interest bond index rose by about 0.7% while the variable interest *("Gilon")* bond index recorded a slight increase of 0.2%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 1.2% in the first quarter of the year, following price increases of some 4.1% in 2016.

Financial assets held by the public

The value of the portfolio of financial assets held by the public at the end of March 2017 amounted to about NIS 3,458 billion, an increase of about 0.6% since the beginning of the year. The increase encompassed most of the components of the financial asset portfolio (other than foreign currency-linked and shares in Israel). The proportion of the shares (in Israel and abroad) in monetary asset portfolio of the Israeli public reached about 22.3% at the end of March 2017, similar to their proportion in December 2016.

Material changes in the financial statement items

Net profit attributed to shareholders (hereinafter: "net profit") in the first quarter of 2017 (hereinafter **-** "the reported period") amounted to about NIS 622 million, compared with NIS 459 million in the corresponding period last year.

Return on capital in the reported period stood at a rate of about 8.1%, compared with about 6.6% for the first quarter of last year. The improvement in the return stems from the increase in interest income, noninterest financing income and commissions and from an exceptional tax expense which was recorded last in respect of the change in the company tax rate. On the other hand, there was an increase in credit loss expenses.

Total profit attributable to shareholders in the reported period amounted to about NIS 908 million, compared with a loss of about NIS 90 million in the corresponding quarter last year.

The total profit for the reported period reflects a return on capital of 12%.

The ratio of Tier 1 shareholders' equity to risk components was 11.02% at 31 March 2017, compared with 11.15% at 31 December 2016. For further details, see note 9A.

On 25 May 2017, the Board of Directors of the Bank approved the distribution of a dividend of 20% of the net profit for the quarter, amounting to NIS 124 million.

Net interest income increased by about NIS 218 million, an increase of about 13.2%, compared with last year. The increase in net interest income arises from an increase of about 4% in the average balance of interest-bearing monetary assets (credit to the public, securities and deposits) and from a moderate increase in the interest margins.

Expenses in respect of credit losses increased by about NIS 224 million, compared with the corresponding period last year. In the reported period, there was an expense amounting to about NIS 101 million, reflecting a rate of expense of about 0.15% of the net credit to the public. In the corresponding period last year, there was income amounting to about NIS 123 million reflecting a rate of income of 0.19% of net credit to the public. The income from credit losses in the corresponding quarter last year arose primarily due to large collections last year.

Noninterest financial income increased by about 231 million, compared with the corresponding period last year. Most of the change is from activity in derivative instruments and exchange rate differences.

Operating commissions increased by about NIS 30 million, mainly in light of an increase in activity turnover in credit cards and in securities.

Operating expenses increased by about NIS 60 million, an increase of about 3.0%. Excluding the effect of the special bonuses and the effect of the collective agreement, as detailed below, salary expenses fell by about NIS 56 million. Maintenance and building and equipment depreciation expenses increased by about NIS 41 million, while operating and other expenses fell by about NIS 30 million.

Tax expenses amounted to about NIS 388 million, compared with about NIS 371 million last year. Tax expenses in the reported period are about 38.5% of the profit before tax, compared with about 45.2% in the corresponding period last year. The decrease in the rate of tax arises mainly from the recording tax expenses last year amounting to NIS 122 million, due to the decrease in the balance of deferred taxes last year as a result of a decrease in the rate of company tax.

Basic earnings per share attributed to the shareholders in the reported period amounted to about NIS 0.41, compared with NIS 0.31 in the corresponding period last year.

Significant Developments in Income, Expenses and Other Comprehensive Income

The change in the net profit for the first quarter of 2017 compared with the corresponding period last year is as follows:

	For the three months ended		Change	
	31 March 2017	31 March 2016		
	NIS millions		NIS millions	%
Net income interest	**1,873**	1,655	218	13.2
Expenses (income) in respect of credit losses	**101**	(123)	224	+
Noninterest income	**1,287**	1,032	255	24.7
Operating and other expenses	**2,050**	1,990	60	3.0
Profit before taxes	**1,009**	820	189	23.0
Provision for tax	**388**	371	17	4.6
Profit after taxes	**621**	449	172	38.3
The Bank's share in profits of companies included on equity basis	**10**	19	(9)	(47.4)
Net profit attributed to non-controlling interests	**(9)**	(9)	-	-
Net profit attributed to shareholders in the banking corporation	**622**	459	163	35.5
Return on equity (in percentages)	**8.1**	6.6		
Profit per share (NIS)	**0.41**	0.31		

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

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Net income interest	**1,873**	1,867	1,970	2,034	1,655
Income (expenses) in respect of credit losses	**101**	46	106	(154)	(123)
Noninterest income	**1,287**	1,324	1,514	1,538	1,032
Other operating expenses	**2,050**	2,280	1,955	2,355	1,990
Profit before taxes	**1,009**	865	1,423	1,371	820
Provision for tax	**388**	425	514	407	371
Profit after taxes	**621**	440	909	964	449
The Bank's share in profits of companies included on equity basis	**10**	10	21	16	19
Net loss profit attributed to non-controlling interests	**(9)**	(7)	(11)	(10)	(9)
Net profit attributed to shareholders in the banking corporation	**622**	443	919	970	459
Return on equity (in percentages)	**8.1**	5.8	12.7	13.7	6.6
Earnings per share (NIS)	**0.41**	0.27	0.58	0.63	0.31

Net interest income

Net interest income of Leumi Group in the reported period amounted to NIS 1,873 million, compared with NIS 1,655 million in the corresponding period last year, an increase of 13.2%.

The increase in net interest income is attributable to an increase in interest-bearing assets, particularly an increase in the volume of credit and a moderate increase in interest margins.

The ratio of net interest income to the average balance of interest-bearing assets (the net yield on interest-bearing assets) is 1.91%, compared with 1.76% in the corresponding period last year.

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

The interest gaps in activity by segment were as follows:

In the index-linked segment, the interest margin in the reported period was 0.33%, compared with (0.42%) in the corresponding period last year. In the foreign currency segment, the interest margin was 1.06%, compared with 1.23% in the corresponding period last year. In the unlinked Shekel segment, the interest margin was 2.06%, compared with 2.10% in the corresponding period last year.

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

Expenses in respect of credit losses

	For the three months ended 31 March			
	2017	2016	Change	
	NIS millions		NIS millions	%
Individual income in respect of credit losses	**(31)**	(275)	244	88.7
Collective expenses in respect of credit losses	**132**	152	(20)	(13.2)
Total expense (income) in respect of credit losses	**101**	(123)	224	+
Percentage ratios:				
Rate of individual income in respect of credit losses to total credit to the public, net	**(0.05)**	(0.42)		
Rate of collective expense in respect of credit losses to total credit to the public, net	**0.20**	0.23		
Rate of total expenses (income) in respect of credit losses to total credit to the public, net	**0.15**	(0.19)		

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Individual income in respect of credit losses	**(31)**	(117)	(111)	(254)	(275)
Collective expense in respect of credit losses	**132**	163	217	100	152
Total expense (income) in respect of credit losses	**101**	46	106	(154)	(123)
Percentage ratios (in annual terms):					
Rate of individual income in respect of credit losses to total credit to the public, net	**(0.05)**	(0.18)	(0.17)	(0.38)	(0.42)
Rate of collective expense in respect of credit losses to total credit to the public, net	**0.20**	0.25	0.33	0.15	0.23
Rate of total expenses (income) in respect of credit losses to total credit to the public, net	**0.15**	0.07	0.16	(0.23)	(0.19)

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

Noninterest income

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS million		NIS million	%
Non-interest financial income	**255**	24	231	+
Commissions	**1,018**	988	30	3.0
Other income	**14**	20	(6)	(30.0)
Total	**1,287**	1,032	255	24.7

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Non-interest financial income	**255**	225	499	534	24
Commissions	**1,018**	994	996	989	988
Other income	**14**	105	19	15	20
Total	**1,287**	1,324	1,514	1,538	1,032

The increase in noninterest income, compared with the corresponding quarter last year, is primarily attributable to income from activity and derivative instruments and net exchange rate differences.

The percentage of noninterest income to total income (i.e., net interest income and noninterest income) was 40.7%, compared with 38.4% in the corresponding period last year and 41.8% in the whole of 2016.

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

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS millions		NIS millions	%
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**390**	(54)	444	+
Profits from sale of available-for-sale debentures, net	**5**	9	(4)	(44.4)
Profits from investments in shares including dividends	**46**	83	(37)	(44.6)
Net profits in respect of loans sold	**-**	-	-	-
Realized and unrealized profits (losses) and adjustments of debentures and shares available for trade to fair value, net (a)	**(186)**	(14)	(172)	-
Total	**255**	24	231	+

(a) Realized and unrealized profits (losses) from adjustments to fair value of debentures and shares for trading, net, also include the effect of exchange rate differences.

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**390**	372	261	(92)	(54)
Profits from sale of available-for-sale debentures, net	**5**	12	286	50	9
Profits (losses) from investments in shares including dividends (a)	**46**	(28)	28	427	83
Net profits (losses) in respect of loans sold	**-**	(1)	31	14	-
Realized and unrealized profits (losses) from adjustments of debentures and shares available for trade to fair value, net (b)	**(186)**	(130)	(107)	135	(14)
Total	**255**	225	499	534	24

(a) The second quarter of 2016 mainly includes a profit from the Visa Europe transaction amounting to NIS 378 million.
(b) Realized and unrealized profits (losses) from adjustments to fair value of debentures and shares for trading, net, also include the effect of exchange rate differences.

The following table presents a breakdown of commissions:

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS millions		NIS millions	%
Account management	**178**	179	(1)	(0.6)
Activity in certain securities and derivative instruments	**169**	162	7	4.3
Credit cards	**255**	240	15	6.3
Treatment of credit	**49**	48	1	2.1
Commissions for distribution of financial products	**73**	68	5	7.4
Conversion differences	**84**	82	2	2.4
Commissions from financing	**135**	132	3	2.3
Other commissions	**75**	77	(2)	(2.6)
Total commissions	**1,018**	988	30	3.0

The increase in commissions arises mainly from an increase in turnover of credit card activity and in securities, which was partly offset by a decrease in tariffs.

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Account management	**178**	178	180	178	179
Activity in certain securities and derivative instruments	**169**	143	143	144	162
Credit cards	**255**	257	268	258	240
Treatment of credit	**49**	42	42	45	48
Commissions for distribution of financial products	**73**	77	72	70	68
Conversion differences	**84**	81	82	82	82
Commissions from financing transactions	**135**	136	130	136	132
Other commissions	**75**	80	79	76	77
Total commissions	**1,018**	994	996	989	988

Details of other income are as follows:

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS millions		NIS millions	%
Profits from severance pay fund	**7**	-	7	-
Other income including sale of buildings and equipment	**7**	20	(13)	(65.0)
Total	**14**	20	(6)	(30.0)

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Profits from severance pay fund	**7**	7	15	5	-
Other income including sale of buildings and equipment	**7**	98	4	10	20
Total	**14**	105	19	15	20

Operating and other expenses

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**1,291**	1,242	49	3.9
Depreciation and amortization	**183**	145	38	26.2
Buildings and equipment maintenance expenses	**252**	249	3	1.2
Other expenses	**324**	354	(30)	(8.5)
Total operating and other expenses	**2,050**	1,990	60	3.0

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS				
Salaries and related expenses	**1,291**	1,280	1,354	1,546	1,242
Depreciation and amortization	**183**	171	172	175	145
Buildings and equipment maintenance expenses	**252**	272	263	250	249
Other expenses	**324**	557	166	384	354
Total operating and other expenses	**2,050**	2,280	1,955	2,355	1,990

Total operating and other expenses of the Leumi Group in the reported period amounted to NIS 2,050 million, compared with NIS 1,990 million in the corresponding period last year, an increase of 3.0%.

Salary expenses

	For the three months ended			
	31 March 2017	31 March 2016	Change	
	NIS millions		NIS millions	%
Salary and related expenses	**1,002**	1,077	(75)	(7.0)
Pension, severance pay and voluntary retirement expenses, net of fund profits	**246**	227	19	8.4
Total salary expenses before non-recurring bonuses	**1,248**	1,304	(56)	(4.3)
Non-recurring bonus and cancelation of long-service bonuses last year	**43**	(62)	105	+
Total salary expenses	**1,291**	1,242	49	3.9

Total salary expenses**,** excluding special bonuses and the effect of collective agreements**,** fell by about NIS 56 million at a rate of about 4.3%.

In total, there was increase in salary expenses arising from a non-recurring annual bonus to employees in the reported period, compared with non-recurring income recorded in the corresponding period last year, in light of the collective agreement that was signed.

	2017	2016			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions				
Salary and related expenses	**1,002**	1,052	1,105	1,140	1,077
Pension, severance pay and voluntary retirement expenses, net of fund profits	**246**	228	249	251	227
Total salary expenses before non-recurring bonuses	**1,248**	1,280	1,354	1,391	1,304
Non-recurring bonus and effect of collective agreements	**43**	-	-	155	(62)
Total salary expenses	**1,291**	1,280	1,354	1,546	1,242

Salary and related expenses account for about 63.0% of total operating expenses, compared with 62.4% in the corresponding period last year, and 63.2% in the whole of 2016.

Operating and other expenses (excluding salaries)

Operating and other expenses, excluding salary, amounted to NIS 759 million in the reported period, compared with NIS 748 million in the corresponding period last year, an increase of 1.5%.

Operating expenses constitute 64.9% of total income, compared with 74.1% in the corresponding period last year, and 66.3% in the whole of 2016.

Total operating and other expenses (in annual terms) constitute 1.90% of the total balance sheet, compared with 1.88% in the corresponding period last year and 1.96% in the whole of 2016.

Tax expenses

Provision for taxes on profit of Leumi Group in the reported period amounted to NIS 388 million, compared with NIS 371 million in the corresponding period last year. The rate of the provision for tax in the reported period was about 38.5% of the pre-tax profit, compared with 45.2% in the corresponding period last year, a decrease of 6.7 percentage points. The decrease in the rate of tax derives mainly from the recording of tax expenses last year amounting to NIS 122 million due to a decrease in the net balance of deferred taxes, as a result of decrease in the rate of company tax from 26.5% to 25% as of 1 January 2016.

The following is a condensed statement of the comprehensive profit:

	Other comprehensive income 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 on equity basis	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 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	96	(44)	(9)	(592)	(549)	-	(549)
Balance at 31 March 2016 (unaudited)	163	(111)	29	(2,082)	(2,001)	(4)	(1,997)
Balance at 31 December 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change in the period	**11**	**(49)**	**(8)**	**332**	**286**	**-**	**288**
Balance at 31 March 2017 (unaudited)	**(75)**	**(128)**	**10**	**(1,837)**	**(2,030)**	**(4)**	**(2,026)**

	Other comprehensive income 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 on equity basis	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 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at 31 December 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)

(a) Adjustments from the translation of financial statements of foreign activities that their functional currency differs from the functional currency of the banking corporation.

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

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

Total Assets of the Leumi Group on 31 March 2017 amounted to NIS 435.3 billion, compared with NIS 438.6 billion at the end of 2016, a decrease of 0.8%, and compared with March 2016, an increase of 2.3%.

Out of the Group's total assets, the value of assets denominated in or linked to foreign currency was about NIS 85.9 billion, some 19.7% of total assets. In the first quarter of 2017, the shekel appreciated against the U.S. dollar by 5.5% and the shekel appreciated against the euro by 4.0%. The change in the exchange rates of the shekel against foreign currencies contributed to a decrease of about 1.1% in the Group's total assets, so that canceling the effect of the appreciation of the shekel, the total balance sheet increased to about NIS 439.9 billion.

Total assets under Group management – The total balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds, for which operational management and deposit management services are provided, amounted to about NIS 1,304 billion, compared with about NIS 1,259 billion at the end of 2016 (about US$ 359 billion and US$ 328 billion, respectively).

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

	31 March 2017	31 December 2016	Change From December 2016	From March 2016
	NIS millions		%	
Total assets	**435,298**	438,603	(0.8)	2.3
Cash and deposits with banks	**68,275**	74,757	(8.7)	22.7
Securities	**77,959**	77,201	1.0	(1.0)
Credit to the public, net	**264,707**	261,913	1.1	0.2
Buildings and equipment	**3,016**	3,147	(4.2)	(1.4)
Deposits of the public	**341,663**	346,854	(1.5)	3.4
Deposits from banks	**4,493**	3,394	32.4	1.2
Debentures, notes and subordinated notes	**22,689**	22,640	0.2	(8.5)
Equity attributed to shareholders of the banking corporation	**32,255**	31,347	2.9	10.0

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

	31 March 2017	31 December 2016	Change From December 2016	From March 2016
	NIS millions		%	
Documentary credits, net	**1,368**	1,418	(3.5)	(17.0)
Guarantees securing credit, net	**5,430**	5,730	(5.2)	(8.3)
Guarantess to apartment purchasers, net	**19,629**	19,538	0.5	3.4
Other guarantees and liabilities, net	**14,772**	15,623	(5.4)	(10.1)
Derivative instruments (a)	**629,811**	644,454	(2.3)	(1.2)
Options of all types	**129,523**	91,986	40.8	9.2

(a) Including "forward" transactions, financial swap transactions, futures, swaps and credit derivatives.

For further information, see Note 11.

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

To correct: the line of total

	31 March 2017	31 December 2016	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**620,374**	610,082	10,292	1.7
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	**47,551**	47,636	(85)	(0.2)
Provident and pension funds	**105,775**	78,189	27,586	35.3
Supplementary training funds	**95,312**	84,774	10,538	12.4

(a) Including a change in market value of securities and the value of securities of mutual and provident funds held in custody, for 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 for which the Group provides operational management services, including the balances of the funds of customers who receive counseling at Leumi.

Credit to the public, net

Credit to the public in the Leumi Group at 31 March 2017 amounted to NIS 264.7 billion, compared with NIS 261.9 billion at the end of 2016, an increase of 1.1%, and compared with March 2016, an increase of 0.2%.

The change in the exchange rates of the shekel against all foreign currencies contributed to a decrease of 0.7% in total credit to the public. Excluding the effect of the change, there was an increase of 1.8% in total credit to the public, so that excluding the effect of the change, total credit was NIS 266.7 billion.

As well as granting credit to the public, the Group invests in the securities of companies, amounting to NIS 13,451 million at 31 March 2017, compared with NIS 13,488 million at the end of 2016. These investments also involve credit risk.

Credit to the public in unlinked shekels, at 31 December 2016, represents about 69.3% of total credit, while at 31 December 2016, it represented 68.6% of total credit. Against the increase in the weight of the unlinked credit, there was a decrease, mainly in index-linked credit which, at 31 March 2017, represented 16.5% of total credit, compared with about 16.9% at 31 December 2016.

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

	31 March 2017	31 December 2016	Change	
	NIS millions	NIS millions	NIS millions	%
Individuals - housing loans	**78,461**	79,131	(670)	(0.8)
Individuals - other	**39,359**	38,557	802	2.1
Construction and real estate	**49,799**	48,994	805	1.6
Commercial	**27,304**	27,344	(40)	(0.1)
Industry	**18,910**	18,554	356	1.9
Other	**54,339**	52,870	1,469	2.8
Total	**268,172**	265,450	2,722	1.0

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:

	31 March 2017			31 December 2016		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired debts	**2,744**	**134**	**2,878**	2,942	176	3,118
Substandard debts	**990**	**87**	**1,077**	1,013	74	1,087
Special mention debts	**2,229**	**1,143**	**3,372**	2,233	1,190	3,423
Total	**5,963**	**1,364**	**7,327**	6,188	1,440	7,628

Problem credit risk:

	31 March 2017	31 December 2016
	NIS millions	
Commercial problem credit risk	**7,688**	7,984
Retail problem credit risk	**1,324**	1,427
Total	**9,012**	9,411
Balance of allowance for credit losses	**1,685**	1,783
Problem credit after allowance for credit losses	**7,327**	7,628

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

Securities

The Group's investments in securities as at 31 March 2017 amounted to NIS 78.0 billion, compared with NIS 77.2 billion at the end of 2016, an increase of 1.0%.

Securities in the Group are classified into three categories: securities for trading, available-for-sale securities and securities held to redemption.

The classification of a security purchased by the Bank for the portfolio of securities held for trading, portfolio of available-for-sale securities or for the portfolio of securities held to redemption 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 as part of the trading room, are classified to the trading portfolio, securities purchased as part of managing the Bank's assets and liabilities are classified in the available-for-sale portfolio, while securities purchased in order to be held until redemption are classified in the held to maturity 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 amortized cost presented as a separate item in 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. Securities held to redemption are presented in the balance sheet at their cost.

On 1 January 2017, a balance of NIS 957 million was classified from the available-for-sale securities portfolio to the held-to-redemption bond portfolio.

For further information, relating to the reclassification of the held-to-redemption portfolio, see Note 11A.3.

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

	31 March 2017				31 December 2016			
	Securities held to redemption	Securities available for sale (a)	Trading securities (b)	Total	Securities held to redemption	Securities available for sale (a)	Trading securities (b)	Total
	NIS millions				NIS millions			
Debentures of:								
Government of Israel	**37**	**36,781**	**5,038**	**41,856**	-	35,409	5,091	40,500
Foreign governments	**352**	**10,276**	**1,630**	**12,258**	-	11,929	2,458	14,387
Financial institutions in Israel	**-**	**23**	**211**	**234**	-	23	159	182
Foreign financial institutions.	**-**	**8,387**	**414**	**8,801**	-	7,460	104	7,564
Asset-backed (ABS) or mortgage-backed (MBS)	**466**	**8,424**	**260**	**9,150**	-	9,749	280	10,029
Others in Israel	**-**	**292**	**145**	**437**	-	296	132	428
Others abroad	**-**	**2,291**	**539**	**2,830**	-	1,882	286	2,168
Shares and mutual funds	**-**	**2,393**	**-**	**2,393**	-	1,942	1	1,943
Total securities	**855**	**68,867**	**8,237**	**77,959**	-	68,690	8,511	77,201

(a) Including unrealized profits (losses) from adjustments to fair value amounting to NIS (117) million which were recorded in other comprehensive income (31 December 2016 – NIS (92) million).

(b) Including unrealized profits (losses) from adjustments to fair value amounting to NIS 22 million which were recorded in profit and loss (31 December 2016 –NIS 9 million).

(c) Most of the debentures of the foreign financial institutions are supranational or with government-backed.

As at 31 March 2017, 88.3% of the Group's *nostro* portfolio was classified as available-for-sale securities and about 10.6% as the trading portfolio. About 3.1% 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 quarter of 2017, there was an increase in other comprehensive income in respect of available-for-sale securities amounting to NIS 20 million (before the effect of tax) compared with a total of NIS 156 million (before the effect of tax) in the corresponding period last year.
2. Net profits from the sale of available-for-sale debentures amounting to NIS 5 million were recorded to profit and loss, compared with profits of NIS 9 million in the corresponding period last year and net profits from investments in shares amounting to NIS 46 million, compared with a total of NIS 83 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 31 March 2017, amounted to a negative amount of NIS 75 million (after the effect of tax), compared with NIS 86 million at the end of 2016. These amounts represent net losses which had not been realized at the dates of the financial statements.

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

Trading portfolio

On 31 March 2017, there was about NIS 8.2 billion in debentures in the trading portfolio, compared with NIS 8.5 billion of debentures on 31 December 2016. As at 31 March 2017, the trading portfolio constitutes about 10.6% of the Group's total *nostro* portfolio, compared with 11.0% on 31 December 2016.

In respect of trading debentures, realized and unrealized losses amounting to NIS 186 million were recorded in the statement of profit and loss, compared with profits amounting to NIS 18 million in the corresponding period last year. The losses in the first quarter of 2017 derive from exchange rate differences recorded to securities in the trading portfolio and they are offset against profits from exchange rate differences on sources in foreign currency which finance the holdings.

For further relating to the composition, see Note 5.

Investments in securities issued abroad

A. Investments in asset-backed securities issued abroad

The Group’s asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed), all of which is rated investment grade at 31 March 2017, amounted to about NIS 8.7 billion (about US$ 2.4 billion), compared with NIS 10.0 billion at the end of 2016. Of the aforementioned portfolio at 31 March 2017, about NIS 8.4 billion (about US$ 2.3 billion) is classified in the available-for-sale portfolio and in the of held-for-trading portfolio

The available-for-sale portfolio of investments in asset-backed securities abroad as at 31 March 2017 includes an investment in mortgage-backed debentures amounting to about NIS 6.7 billion. 94% of the total mortgage-backed debentures in the available portfolio were issued by federal agencies in the United States (GNMA, FHLMC and FNMA) and are rated, at the date of the report, as AAA.

As at 31 March 2017, the accumulated net impairment charged to shareholders' equity resulting from the mortgage-backed securities portfolio was about NIS 89 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 amounts to about NIS 1,178 million.

The projected term to maturity for the entire mortgage-backed securities portfolio is an average of about 5.2 years (average duration). 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 1.7 billion. Of these, CLO-type debentures amount to about NIS 1.4 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is about 3.6 years on average.

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

B. Investments in non-asset backed securities issued abroad

The Group’s securities portfolio as at 31 March 2017 includes about NIS 27.5 billion (US$ 7.6 billion) of non-asset-backed securities issued abroad. Of these securities, NIS 24.4 billion (US$ 6.7 billion) are classified in the available-for-sale portfolio, with the balance in the trading portfolio and the held-to-redemption portfolio. Of the total securities, 96% are investment grade and include mainly securities issued by the U.S. government, banks and financial institutions, investment grade companies' debentures and the rest are mainly securities issued by the Israeli government.

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

As at 31 March 2017, 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 9 million (NIS 6 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. 98% of the securities in the trading portfolio are investment grade.

The value of the non-asset backed trading portfolio as of 31 March 2017 amounted to about NIS 2.7 billion (US$ 0.7 billion). The difference between the fair value and the amortized 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 40.9 billion on 31 March 2017, of which NIS 40.2 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 46.9% of the investments in corporate debentures, amounting to NIS 0.3 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 0.3 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 trade and quoted on the Stock Exchange.

Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,393 million on 31 March 2017, of which NIS 1,481 million was in listed shares and NIS 912 million was in non-listed shares. The total investment is classified in the available-for-sale portfolio.

The capital required in respect of these investments as at 31 March 2017 was NIS 299 million.

For further information, see Note 5.

Main changes in investment in shares

In the first quarter of 2017, the Bank sold the balance of its holdings in Kenon Holdings Ltd., about 3.7 million shares, representing 7.0% of the issued and paid-up capital of Kenon. The profit before tax recorded by the Bank in respect of the sale of the shares amounted to about NIS 13.5 million.

Deposits of the Public

Deposits of the public in the Group amounted to NIS 341.7 billion at 31 March 2017, compared with NIS 346.9 billion at the end of 2016, a decrease of 1.5%, and compared with March 2016, an increase of 3.4%.

The change in the exchange rate of the shekel against all foreign currencies reduced total deposits of the public by 1.6%, so that, excluding the effects of the change, there was an increase of 0.1% in deposits of the public.

Debentures, capital notes and subordinated notes

Debentures, capital notes and subordinated notes amounted to NIS 22.7 billion as at 31 March 2017, compared with NIS 22.6 million at the end of 2016, an increase of 0.2% and compared with March 2016, a decrease of 8.5%.

Early redemption of deposits / deferred capital notes

On 26 January 2017, the Board of Directors of the Bank resolved to redeem during June-July 2017 by full early redemption NIS 400,000,000 par value of (non-tradable) index linked deposits / deferred capital notes, which were offered in 2002. The estimated amount of the redemption of the capital notes (including linkage differences) is about NIS 500 million. The full early redemption will be carried out in accordance with the right held by the Bank to effect a full early redemption, according to the terms of the capital notes.

Capital and Capital Adequacy

The capital attributable to the Shareholders of the Banking Corporation (hereinafter "capital") as at 31 March 2017 amounted to NIS 32,255 million, compared with NIS 31,347 million at the end of 2016, an increase of 2.9%. The increase derives both from the net profit for the period and from an increase in other comprehensive income.

Capital ratio to the balance sheet as at 31 March 2017 reached 7.4%, compared with 7.1% at 31 December 2016.

Capital adequacy structure

	31 March 2017	31 March 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity, after regulatory adjustments and deductions	**32,965**	29,719	32,586
Tier 2 capital, after deductions	**11,369**	12,890	11,850
Total capital	**44,334**	42,609	44,436
Weighted balances of risk assets			
Credit risk	**272,108**	272,523	266,534
Market risk	**6,141**	5,793	4,788
Operational risk	**20,862**	20,100	20,843
Total weighted balances of risk assets	**299,111**	298,416	292,165
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components	**11.02%**	9.96%	11.15%
Ratio of total capital to risk components	**14.82%**	14.28%	15.21%

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 No. 201-211. These directives came into force on 1 January 2014.

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

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

The sum of these tiers is called "the capital basis for capital adequacy" or "the regulatory capital" or "the 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 Directive No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

In addition to these, adjustments to Tier 1 shareholders' equity, arising from the implementation of the operating streamlining plan and from the method of calculating capitalization interest used to calculate the obligation for employee rights are included, as set forth below.

Additional Tier 1 capital which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business 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 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% until 1 January 2022 (In 2017, the recognition ceiling is 50% of the balance.). The capital instruments, which were part of Tier 2 capital at 31 December 2013, include compound capital instruments which were, until now, classified as Upper Tier 2 capital, as well as subordinated notes, which were classified to Lower Tier 2 capital.

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 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 are required to comply with all the criteria set forth in Proper Conduct of Banking Business 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-viability(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.

Restrictions on capital structure

The following restrictions were provided in Proper Conduct of Banking Regulation no. 202:

- Tier 2 capital must not exceed 100% of Tier 1 capital, after the deductions required from this capital.
- The qualifying capital instruments to be included in Tier 2 capital must not exceed 50% of Tier 1 capital after the deductions required from this capital. This restriction does not include the capital instruments included prior to the application of this provision in Upper Tier 2 capital, at the rate of the balance of those instruments as at 31 December 2013, and pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive no. 299 (Regulatory Capital – Transitional Provisions).

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 shareholders' equity 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.

Capital adequacy targets prescribed by the Bank of Israel:

Pursuant to Proper Conduct of Banking Business Directive No. 201, "Measurement and Capital Adequacy – Introduction, Scope of Application and Calculation of Requirements", with effect from 1 January 2015, all banking corporations are required to comply with a minimum Tier 1 capital ratio of 9%, and in the minimum overall capital ratio of 12.5%. 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%, in the overall capital ratio of 13.5%, with effect from 1 January 2017. Leumi is subject to this additional directive.

Furthermore, pursuant to an amendment to Proper Conduct of Banking Business Directive No. 329 "Restrictions on the Grant of Housing Loans", the banking corporation will be required to increase the Tier 1 shareholders' equity target and overall capital target at a rate reflecting 1% of the balance of housing loans. This requirement is being implemented gradually in equal quarterly rates with effect from 1 April to 1 January 2017. The effect of the amendment to the directive on Leumi Group at the final effective date is 0.26% of the capital adequacy ratio. In view thereof, the minimum capital requirements which apply to the Bank as of 31 March 2017 are 10.26% to Tier 1 shareholders' equity and 13.76% to the overall capital.

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%.

Management of capital adequacy

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 resulted 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 is 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.

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.

For further information regarding the capitalization methodology, see Chapter "Accounting Policy and Estimates in Critical Issues".

As of 31 March 2017, the Bank's Tier 1 capital adequacy is 11.02%.

Streamlining Plan

On 12 January 2016, the Supervisor of Banks published a circular on "Operational Streamlining 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 streamlining plan, the cost of which amounted to NIS 438 million (after tax). Excluding the abovementioned relief, the implementation of the streamlining plan, as of 31 March 2017, would result in a decrease of 0.16% in the Tier 1 shareholders' equity ratio. The relief in regulatory capital is gradually decreasing through 30 June 2021.

- **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 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.

  For further information, see Note 9B.

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

- A change in the volume of risk assets – The risk assets of Leumi amounted to NIS 299.1 billion at the end of March 2017. Every increase of 1% in the risk assets (approximately NIS 3 billion) will reduce the Tier 1 shareholders' equity capital 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 33.0 billion at the end of March 2017. The overall capital amounts to NIS 44.3 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 ratio and the overall capital ratio by 0.33%.

- 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 and its 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".

Dividend distribution policy

On 29 March 2017, the Board of Directors of the Bank approved a dividend distribution policy, with effect from the date of publication of the financial statements for the first quarter of 2017. Pursuant to the dividend policy, the Bank will, each quarter, distribute a dividend amounting to 20% of the Bank's net profit according to the Bank's financial statements for the previous quarter and subject to, among other things, the Bank being in compliance with its capital adequacy targets, even after the distribution of the dividend. The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and subject to the provisions of the law which apply to a distribution of dividends, including the provisions of the Companies Law and directives of the Bank of Israel.

On 25 May 2017, the Board of Directors approved the distribution of a dividend amounting to NIS 124 million in accordance with the above policy.

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 markets – 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, minus the cost of raising the sources (transfer cost). In addition, the business line is credited with the transfer cost for deposits that were raised minus 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 in the balance sheet and in the profit and loss statement, 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 31 March 2017								
	NIS millions								
	Bank (a)						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			Total
Interest income, net	**980**	**235**	**133**	**116**	**106**	**(1)**	**61**	**243**	**1,873**
Non-interest income	**451**	**102**	**54**	**89**	**264**	**79**	**293**	**(45)**	**1,287**
Total income	**1,431**	**337**	**187**	**205**	**370**	**78**	**354**	**198**	**3,160**
Expenses (income) in respect of credit losses	**93**	**4**	**(7)**	**15**	**(15)**	**(7)**	**17**	**1**	**101**
Total operating and other expenses	**1,056**	**158**	**68**	**36**	**69**	**232**	**232**	**199**	**2,050**
Profit (loss) before tax	**282**	**175**	**126**	**154**	**316**	**(147)**	**105**	**(2)**	**1,009**
Tax expenses (income)	**99**	**62**	**44**	**54**	**111**	**(39)**	**29**	**28**	**388**
Net profit (loss) attributed to shareholders of the banking corporation	**183**	**113**	**82**	**100**	**205**	**(108)**	**77**	**(30)**	**622**

Balance ast 31 March 2017									
Credit to the public	**138,769**	**34,897**	**33,248**	**19,006**	**4,592**	**3,273**	**7,945**	**22,977**	**264,707**
Deposits of the public	**189,994**	**40,768**	**20,476**	**5,779**	**59,105**	**49**	**93**	**25,399**	**341,663**
Assets under management	**181,394**	**25,918**	**18,255**	**1,991**	**369,400**	**26,422**	**226,640**	**18,992**	**869,012**

	For the three months ended 31 March 2016								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			Total
Interest income, net	911	221	115	142	18	(27)	49	226	1,655
Non-interest income	440	107	52	85	(56)	68	315	21	1,032
Total income	1,351	328	167	227	(38)	41	364	247	2,687
Expenses (income) in respect of credit losses	154	(11)	(82)	(176)	(4)	5	2	(11)	(123)
Total operating and other expenses	1,051	163	87	42	71	150	217	209	1,990
Profit (loss) before tax	146	176	162	361	(105)	(114)	145	49	820
Tax expenses (benefit)	52	63	58	130	(38)	43	45	18	371
Net profit (loss) attributed to shareholders of the banking corporation	94	113	104	231	(66)	(157)	109	31	459

Balance as at 31 March 2016									
Credit to the public, net	139,269	33,722	32,074	24,364	3,788	2,639	6,234	22,043	264,133
Deposits of the public	180,922	39,832	17,833	6,623	60,572	(290)	78	24,784	330,354
Assets under management	179,858	25,607	17,073	2,556	331,138	27,008	183,264	19,144	785,648

	For the year ended 31 December 2016								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			Total
Interest income, net	3,761	895	521	526	650	(1)	237	937	7,526
Non-interest income	1,768	401	209	343	863	686	1,130	8	5,408
Total income	5,529	1,296	730	869	1,513	685	1,367	945	12,934
Expenses (income) in respect of credit losses	755	(72)	(376)	(392)	(55)	(20)	37	(2)	(125)
Total operating and other expenses	4,505	701	356	176	368	625	905	944	8,580
Profit before tax	269	667	750	1,085	1,200	80	425	3	4,479
Tax expenses (income)	96	240	269	389	431	5	218	69	1,717
Net profit (loss) attributed to shareholders of the banking corporation	173	427	481	696	774	75	231	(66)	2,791

Balance as at 31 December 2017									
Credit to the public, net	138,638	34,089	30,238	21,229	3,779	2,966	7,407	23,567	261,913
Deposits of the public	191,156	41,698	19,772	7,702	59,696	40	68	26,722	346,854
Assets under management	176,638	26,781	18,607	1,814	362,413	25,503	189,681	19,244	820,681

Regulatory operating segments

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 businesses 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. 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-banking 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.
7. Other segment - Including discontinued activities, designated profits and other results connected to employee rights which are 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.

	For the three months ended 31 March 2017									
	NIS millions									
	Activity in Israel								Overseas activity	
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		Total
Net interest income	**656**	**19**	**447**	**155**	**278**	**16**	**64**	**1**	**237**	**1,873**
Noninterest income	**430**	**44**	**184**	**79**	**171**	**44**	**260**	**15**	**60**	**1,287**
Total income	**1,086**	**63**	**631**	**234**	**449**	**60**	**324**	**16**	**297**	**3,160**
Expenses (income) in respect of credit losses	**21**	**1**	**86**	**(6)**	**5**	**-**	**(10)**	**(3)**	**7**	**101**
Total operating and other expenses	**947**	**31**	**317**	**112**	**127**	**73**	**23**	**220**	**200**	**2,050**
Profit before tax	**118**	**31**	**228**	**128**	**317**	**(13)**	**311**	**(201)**	**90**	**1,009**
Tax expenses	**34**	**11**	**80**	**46**	**110**	**(4)**	**118**	**(35)**	**28**	**388**
Net profit attributable to shareholders in the Bank	**74**	**20**	**147**	**82**	**206**	**(9)**	**203**	**(163)**	**62**	**622**
										-
Balances as at 31 March 2017										
Gross credit to the public	**111,769**	**526**	**52,231**	**24,216**	**53,803**	**2,292**	**-**	**-**	**23,335**	**268,172**
Deposits of the public	**113,955**	**29,447**	**39,356**	**32,270**	**44,504**	**56,732**	**-**	**-**	**25,399**	**341,663**
Assets under management	**79,353**	**49,263**	**28,756**	**18,309**	**76,426**	**567,466**	**30,448**	**-**	**18,991**	**869,012**

	For the three months ended 31 March 2016									
	NIS millions									
	Activity in Israel								Overseas activity	
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		Total
Net interest income	617	19	395	142	252	11	1	1	217	1,655
Noninterest income	420	40	171	78	162	43	22	7	89	1,032
Total income	1,037	59	566	220	414	54	23	8	306	2,687
Expenses (income) in respect of credit losses	96	1	56	(1)	(257)	7	(19)	(6)	-	(123)
Total operating and other expenses	931	33	302	121	162	63	28	141	209	1,990
Profit (loss) before tax	10	25	208	100	509	(16)	14	(127)	97	820
Tax expenses (benefit)	(5)	9	75	36	182	(6)	16	46	18	371
Net profit (loss) attributable to shareholders in the Bank	6	16	132	64	327	(10)	17	(172)	79	459
										-
Balances as at 31 March 2016										
Gross credit to the public	113,933	587	47,141	23,549	59,088	928	-	-	22,446	267,672
Deposits of the public	111,381	28,853	32,276	30,467	44,979	57,620	-	-	24,778	330,354
Assets under management	78,969	50,109	26,814	20,142	69,644	485,821	35,005	-	19,144	785,648

	For the year ended 31 December 2016									
	NIS millions									
	Activity in Israel								Overseas activity	
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		Total
Net interest income	2,578	86	1,600	571	1,162	57	576	(10)	906	7,526
Noninterest income	1,737	161	682	318	657	163	1,308	139	243	5,408
Total income	4,315	247	2,282	889	1,819	220	1,884	129	1,149	12,934
Expenses (income) in respect of credit losses	521	1	222	(120)	(687)	(33)	(64)	-	35	(125)
Total operating and other expenses	4,112	131	1,333	501	646	285	178	448	946	8,580
Profit (loss) before tax	(318)	115	727	508	1,860	(32)	1,770	(319)	168	4,479
Tax expenses (benefit)	(146)	42	257	179	662	(11)	675	(11)	70	1,717
Net profit (loss) attributable to shareholders in the Bank	(214)	73	466	327	1,194	(21)	1,162	(294)	98	2,791
										-
Balances as at 31 December 2016										
Gross credit to the public	114,516	615	47,572	24,178	53,137	1,486	-	-	23,946	265,450
Deposits of the public	117,863	28,696	36,535	33,026	48,151	55,862	-	-	26,721	346,854
Assets under management	79,623	49,663	27,223	20,484	65,588	528,324	30,532	-	19,244	820,681

Major Investee Companies

The Leumi Group operates in Israel and abroad through subsidiaries which are: banks, financing companies and financial service 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 11.3 billion on 31 March 2017, compared with NIS 11.4 billion on 31 December 2016, and their contribution to the Group's net operating profit amounted to NIS 92 million, compared with a profit of NIS 140 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel amounted to NIS 5,846 million on 31 March 2017, compared with NIS 5,783 million on 31 December 2016. Their contribution to the Group's net operating profit amounted to NIS 75 million in the first quarter of 2017, compared with NIS 113 million in the corresponding period last year, a decrease of 33.5%. The Group’s return on its investment in the consolidated companies in Israel was 5.3% in the first quarter of 2017 compared with 7.4% in the corresponding period last year. The decrease in contribution to net profit derives from a decrease in the profit of Leumi Partners, due to a decrease in profits from the sale of shares and from a decrease in the profit of Leumi Card due to a special bonus given to employees pursuant to agreements with representatives of employees of Leumi Card with regard to the end of disputes which led to a labor conflict.

Leumi Partners

On 7 May 2016, the subsidiary company Leumi Partners entered into an agreement in a non-binding memorandum of understanding[1] (hereinafter: "the Memorandum of Understanding") with Direct Insurance - Financial Investments Ltd. (hereinafter: "Financial Investments"), pursuant to which, subject to the completion of Financial Investments' conversion to a private company, Leumi Partners and other investors will purchase ordinary shares of Financial Investments in an amount of NIS 480 million by way of a private placement, with Leumi Partners' share being up to 10% of the issued and paid-up capital of Financial Investments, for consideration of NIS 150 million.

In addition, the investors will be allotted options, not listed for trading, exercisable at the date of completing the transaction and up to 3 years after the date of allotment, to purchase 5% of the issued and paid-up capital of Financial Investments on a fully diluted basis. The investors will be granted the right to request the conversion or redemption of its shares up to the end of the seventh year from the date of completing the transaction, and Financial Investments will make efforts to act in accordance with the request as aforesaid. However, insofar as it does not succeed in executing the redemption and/or the conversion, as aforesaid, there will not be any grounds for an action against it.

The execution of the transaction is contingent on conditions precedent and the amount of the transaction will be adjusted for dividends and capital movements in Financial Investments subsequent to 31 March 2017. In addition, it is provided that if the value of Financial Investments will be less than NIS 1.43 billion (adjusted for dividends and capital movements), the agreement may be nullified.

Consolidated companies abroad

The Bank's total investment in overseas offices on 31 March 2017 amounted to NIS 3,980 million, compared with NIS 4,108 million at the end of 2016.

The contribution of the overseas offices to the net profit in shekels of the Group in the first quarter of 2017 amounted to a profit of NIS 16 million compared with a profit of NIS 26 million in the corresponding period last year.

[1] The signing of a binding investment agreement is subject to recruiting the aforesaid investors and to completing due diligence checks of the investors in Financial Investments.

Exposure to Risk and Methods of Risk Management

This chapter is written in greater detail in 2016 Annual Report on Risks. The chapter below should therefore be read in conjunction with those reports.

The management of risks and the generation of an appropriate return against them are at the base of the Bank's business activity. The central risks managed by the Bank are financial risks: credit risk management is the Bank's core business, along with management of liquidity risks and management of market risks. Further at the business level, we would note the strategic risk management. Alongside the management of business risks, the Bank's activity creates other related risks, the management of which is an essential condition for meeting the Group's current objectives and long-term targets. The Group is engaged in a wide range of activities involving the taking of financial risks, such as credit risk, market and liquidity risks, including pension risks and other risks other than operating risks, such as technological and cyber risks, legal risks, regulatory risks, reputational risks, strategic risks, compliance risks and conduct risks (fair conduct with customers). The main objectives of risk management in Leumi are maintaining the Group's stability and supporting the attainment of business targets. These objectives are achieved through meeting the risk appetite which has been defined, policy and the system of restrictions derived therefrom, which create the boundaries for business activity. This framework is managed under the maintenance of the existence of proper management, control and reporting mechanisms. At the same time, there is continual activity in the Bank to upgrade risk management infrastructure and analysis of the risk picture, enabling educated decision-making.

The Bank has specified the following risks as principal risks: credit risks, market risk, liquidity risk and operating risks. For further information regarding all of the risks of the Bank, including details and expansion with regard to any type of risk and their level of materiality, see the chapter on Review of Risks in the Report of the Board of Directors for 2016.

Changes in the risk environment and their impact on the Group

Since the beginning of the year, there have been no significant changes in the map of risks and threats, and in the business environment in which Bank Leumi operates. The banking system in Israel and around the world, including Leumi, has been impacted in recent years by the risks related to regulations and legislation, a volatile macroeconomic environment, and changes occurring in the business model, including the transition to "new banking" which is based on the digital and social and consumer trends.

From the range of risks in the banking system, we should note the macroeconomic risk and operating risk, including cyber risk and technology risks as significant threats.

The main risk areas which are expected to impact the Bank's activities in the coming year are as follows:

Macro-economic risk

Macro-economic risk is risk to the Group's income and capital arising from macroeconomic conditions, including a low interest environment, political power relationships in the world and their impact on international trade – also, in light of the results of elections in the United States, developments in China and emerging markets, a concern for stability in the Euro Area and geopolitical instability in points of conflict around the world, including, due to the increasing threats of terrorism.

The Bank is examining its ability to withstand negative developments in the macroeconomic environment through systemic stress scenarios. In addition, the Bank conducts monitoring and review procedures of developments in the market, in order to be prepared in advance and to adapt the activity, as necessary.

Increase in regulatory requirements

The increasing frequency of regulatory requirements in Israel and around the world has an impact on the Group's business model, the profitability and capital adequacy requirements. There have been no material changes in regulatory risk since the beginning of the year. The Bank continues to follow developments and prepare itself accordingly.

Data security and cyber risks and technological risks

There were no material changes in this risk environment since the beginning of the year.

Conduct risk

The risk that conduct vis-à-vis the customer which is not fair, transparent or adapted to its requirements will lead to losses as a result of legal damages, fines or damage to the Bank's reputation. The Bank demands transparent and fair conduct, with the aim of giving its customers value services and products. There have been no material changes in this risk environment since the beginning of the year.

Severity of risk factors

There were no changes in the severity of the risk factors in relation to the table published in the 2016 Annual Report.

Credit risk

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 Business 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.

As part of credit risk management, the Bank monitors the quality of the credit portfolio, including the overall fairness of the allowance for credit losses to cover the losses inherent in the credit portfolio, concentrations of the credit portfolio and activity according to main product, for example: credit to the construction and real estate sector, consumer credit, housing loans and leveraged credit.

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

For further details regarding developments which took place in the credit portfolio and quality metrics characterizing the portfolio, see further in this chapter and in the Report on Risks.

Problem Credit Risk

	31 March 2017		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	**3,449**	**293**	**3,742**
Subordinate credit risk	**1,198**	**93**	**1,291**
Credit risk under special mention (b)	**2,739**	**1,240**	**3,979**
Total problem credit	**7,386**	**1,626**	**9,012**
Of which: Unimpaired debts in arrears 90 days or more (b)	**935**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**2,993**	**-**	**-**
Assets received in respect of credit cleared	**14**	**-**	**-**
Total non-performing assets	**3,007**	**-**	**-**

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.

	31 March 2016		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	3,676	257	3,933
Subordinate credit risk	1,310	183	1,493
Credit risk under special mention (b)	2,923	1,244	4,167
Total problem credit	7,909	1,684	9,593
Of which: Unimpaired debts in arrears 90 days or more (b)	857	-	-
2. Non-performing assets:			
Impaired debts	3,218	-	-
Assets received in respect of credit cleared	12	-	-
Total non-performing assets	3,230	-	-

	31 December 2016		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	3,657	331	3,988
Subordinate credit risk	1,271	81	1,352
Credit risk under special mention (b)	2,787	1,284	4,071
Total problem credit	7,715	1,696	9,411
Of which: Unimpaired debts in arrears 90 days or more (b)	1,003	-	-
2. Non-performing assets:			
Impaired debts	3,223	-	-
Assets received in respect of credit cleared	14	-	-
Total non-performing assets	3,237	-	-

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

	31 March 2017	31 March 2016	31 December 2016
	%		
Balance of impaired credit to the public as a percentage of the balance of credit to the public	**1.28**	1.37	1.38
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	**0.35**	0.32	0.38
Problem credit risk in respect of the public as a percentage of total credit risk in respect of the public	**2.74**	2.94	2.90
Expenses in respect of credit losses as a percentage of the average balance of credit to the public	**0.04**	(0.05)	(0.05)
Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public	**(0.05)**	(0.01)	-

Details of Credit Risk Metrics of the Credit Loss Allowance

	31 March 2017	31 March 2016	31 December 2016
	%		
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**	1.5	1.5
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	**115.6**	109.7	110.2
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	**90.9**	88.9	86.4
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	**(3.5)**	(0.4)	(0.1)

Credit concentration

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

Dispersal of the credit portfolio among the various market sectors

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

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

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

Overall credit risk to the public by sector of the economy

	31 March 2017									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:					
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers in Israel										
Agriculture	**2,176**	**2,010**	**166**	**2,173**	**1,867**	**166**	**87**	**7**	**4**	**(58)**
Mining and quarrying	**917**	**908**	**9**	**874**	**288**	**9**	**-**	**-**	**-**	**(1)**
Industry	**21,118**	**19,886**	**1,232**	**20,829**	**14,286**	**1,230**	**431**	**14**	**29**	**(502)**
Construction and real estate - construction (g)	**46,715**	**45,223**	**1,492**	**46,633**	**15,951**	**1,492**	**360**	**39**	**11**	**(356)**
Construction and real estate - real estate activity	**27,155**	**26,071**	**1,084**	**27,073**	**24,326**	**1,084**	**726**	**(7)**	**(4)**	**(441)**
Electricity and water	**4,846**	**4,480**	**366**	**4,447**	**2,968**	**366**	**263**	**-**	**-**	**(67)**
Commerce (h)	**28,222**	**27,225**	**997**	**27,974**	**22,974**	**979**	**250**	**38**	**27**	**(333)**
Hotels, catering services and food	**3,220**	**3,016**	**204**	**3,193**	**2,751**	**204**	**71**	**(4)**	**(6)**	**(31)**
Transport and storage	**7,955**	**7,704**	**251**	**7,834**	**6,982**	**251**	**167**	**4**	**6**	**(44)**
Communications and computer services	**5,658**	**5,458**	**200**	**5,381**	**4,003**	**196**	**186**	**1**	**-**	**(70)**
Financial services	**20,342**	**19,979**	**363**	**15,199**	**11,656**	**355**	**351**	**(15)**	**(18)**	**(220)**
Business and other services	**9,252**	**9,094**	**158**	**9,216**	**6,593**	**158**	**56**	**6**	**10**	**(143)**
Public and community services	**8,821**	**8,764**	**57**	**8,797**	**7,319**	**57**	**14**	**4**	**2**	**(54)**
Total commercial	**186,397**	**179,818**	**6,579**	**179,623**	**121,964**	**6,547**	**2,962**	**87**	**61**	**(2,320)**
Private individuals - housing loans	**79,748**	**79,048**	**700**	**79,748**	**77,968**	**698**	**-**	**(1)**	**2**	**(460)**
Private individuals - other	**68,753**	**68,174**	**579**	**68,744**	**38,797**	**579**	**123**	**7**	**63**	**(764)**
Total public - activity in Israel	**334,898**	**327,040**	**7,858**	**328,115**	**238,729**	**7,824**	**3,085**	**93**	**126**	**(3,544)**
Banks in Israel	**5,444**	**5,444**	**-**	**820**	**742**	**-**	**-**	**-**	**-**	**(1)**
Government of Israel	**42,989**	**42,989**	**-**	**234**	**234**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**383,331**	**375,473**	**7,858**	**329,169**	**239,705**	**7,824**	**3,085**	**93**	**126**	**(3,545)**

(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 239,705, 42,475, 903, 3,984, 96,264 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 979 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.)

	31 March 2017									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
					Of which:			Credit losses (d)		
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Public - Commercial										
Agriculture	**76**	**75**	**1**	**74**	**37**	**1**	**1**	**-**	**-**	**(1)**
Mining and quarrying	**15**	**15**	**-**	**7**	**4**	**-**	**-**	**-**	**-**	**-**
Industry	**9,013**	**8,734**	**279**	**7,469**	**4,624**	**279**	**96**	**2**	**-**	**(45)**
Construction and real estate (g)	**14,249**	**13,646**	**603**	**13,548**	**9,522**	**603**	**314**	**4**	**4**	**(178)**
Electricity and water	**159**	**159**	**-**	**77**	**22**	**-**	**-**	**-**	**-**	**-**
Commerce	**6,330**	**6,290**	**40**	**6,176**	**4,330**	**40**	**36**	**9**	**(1)**	**(84)**
Hotels, catering services and food	**1,728**	**1,724**	**4**	**1,728**	**1,644**	**4**	**-**	**-**	**-**	**(9)**
Transport and storage	**128**	**80**	**48**	**100**	**83**	**48**	**48**	**-**	**-**	**(5)**
Communications and computer services	**2,148**	**2,148**	**-**	**1,859**	**918**	**-**	**-**	**-**	**-**	**(1)**
Financial services	**15,019**	**14,926**	**93**	**1,884**	**1,256**	**93**	**93**	**(6)**	**-**	**(46)**
Business and other services	**6,694**	**6,662**	**32**	**6,450**	**5,521**	**32**	**8**	**-**	**9**	**(33)**
Public and community services	**802**	**793**	**9**	**799**	**427**	**9**	**9**	**-**	**-**	**(18)**
Total commercial	**56,361**	**55,252**	**1,109**	**40,171**	**28,388**	**1,109**	**605**	**9**	**12**	**(420)**
Private individuals - housing loans	**494**	**465**	**29**	**494**	**493**	**29**	**29**	**(1)**	**-**	**(10)**
Private individuals - other	**640**	**624**	**16**	**640**	**562**	**16**	**16**	**-**	**-**	**(5)**
Total public - activity abroad	**57,495**	**56,341**	**1,154**	**41,305**	**29,443**	**1,154**	**650**	**8**	**12**	**(435)**
Banks abroad	**26,606**	**26,606**	**-**	**10,429**	**9,753**	**-**	**-**	**-**	**-**	**-**
Governments abroad	**12,944**	**12,944**	**-**	**668**	**386**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**97,045**	**95,891**	**1,154**	**52,402**	**39,582**	**1,154**	**650**	**8**	**12**	**(435)**
Total	**480,376**	**471,364**	**9,012**	**381,571**	**279,287**	**8,978**	**3,735**	**101**	**138**	**(3,980)**

(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 39,582, 33,105, 7,054, 17,304 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.)

	31 March 2017									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
					Of which:[1]			Credit losses (d)		
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Public - Commercial										
Agriculture	2,112	1,978	134	2,109	1,813	134	50	15	3	(51)
Mining and quarrying	687	679	8	573	400	8	-	-	-	-
Industry	24,143	22,687	1,456	23,750	15,691	1,458	524	(9)	(23)	(532)
Construction and real estate - construction(g)	46,533	44,790	1,743	46,431	16,032	1,743	331	5	-	(353)
Construction and real estate - real estate activity	28,345	26,777	1,568	28,274	25,144	1,569	835	(196)	19	(442)
Electricity and water	5,500	5,082	418	5,160	3,505	418	283	22	-	(62)
Commerce (h)	28,237	27,304	933	28,022	22,833	895	230	(2)	1	(294)
Hotels, catering services and food	3,070	2,891	179	3,029	2,681	179	133	(56)	(59)	(30)
Transport and storage	7,327	7,014	313	7,217	6,011	310	264	3	2	(37)
Communications and computer services	6,244	5,990	254	5,916	4,191	250	244	(5)	(3)	(57)
Financial services	21,216	21,154	62	15,777	10,635	62	48	(42)	(13)	(274)
Business and other services	7,886	7,771	115	7,852	5,456	115	61	15	7	(101)
Public and community services	7,936	7,898	38	7,910	6,600	38	12	5	3	(45)
Total commercial	189,236	182,015	7,221	182,020	120,992	7,179	3,015	(245)	(63)	(2,278)
Private individuals - housing loans	82,895	82,148	747	82,895	80,354	747	-	(2)	1	(495)
Private individuals - other	66,442	65,971	471	66,433	37,096	471	143	148	52	(749)
Total public - activity in Israel	338,573	330,134	8,439	331,348	238,442	8,397	3,158	(99)	(10)	(3,522)
Banks in Israel	6,849	6,849	-	2,445	2,354	-	-	(1)	-	(2)
Government of Israel	43,914	43,914	-	196	196	-	-	-	-	-
Total activity in Israel	389,336	380,897	8,439	333,989	240,992	8,397	3,158	(100)	(10)	(3,524)

(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 240,990, 42,972, 1,621, 5,570, 98,182 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 1,032 million, which were extended to purchasing groups in the process of construction.

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

	31 March 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	Total	Credit performance rating (f)	Problematic (e)	Total	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Public - Commercial										
Agriculture	61	60	1	61	53	1	1	(1)	-	(2)
Mining and quarrying	37	37	-	36	28	-	-	-	-	-
Industry	8,496	8,269	227	7,076	4,697	227	59	(26)	10	(53)
Construction and real estate (g)	12,336	11,793	543	11,951	9,117	543	378	(8)	(3)	(215)
Electricity and water	312	312	-	78	47	-	-	-	-	-
Commerce	7,437	7,369	68	7,322	4,846	68	68	7	1	(87)
Hotels, catering services and food	1,476	1,448	28	1,476	1,392	28	21	-	-	(10)
Transport and storage	239	175	64	222	197	64	64	6	19	(16)
Communications and computer services	2,334	2,334	-	2,023	791	-	-	-	-	(1)
Financial services	17,347	17,258	89	2,478	1,618	89	89	(6)	(1)	(46)
Business and other services	5,171	5,122	49	5,083	4,252	49	2	5	-	(19)
Public and community services	477	470	7	465	355	7	-	-	-	(18)
Total commercial	55,723	54,647	1,076	38,271	27,393	1,076	682	(23)	26	(467)
Private individuals - housing loans	1,130	1,081	49	1,131	1,126	48	45	-	1	(15)
Private individuals - other	876	847	29	865	711	29	28	-	-	(6)
Total public - activity abroad	57,729	56,575	1,154	40,267	29,230	1,153	755	(23)	27	(488)
Banks abroad	23,318	23,318	-	10,609	8,969	-	-	-	-	-
Governments abroad	15,052	15,052	-	460	216	-	-	-	-	-
Total activity abroad	96,099	94,945	1,154	51,336	38,415	1,153	755	(23)	27	(488)
Total	485,435	475,842	9,593	385,325	279,407	9,550	3,913	(123)	17	(4,012)

(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 38,814, 33,144, 7,556, 16,986 million, respectively.
(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.
(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt 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 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers in Israel										
Public - Commercial										
Agriculture	2,168	1,975	193	2,165	1,863	192	93	23	7	(54)
Mining and quarrying	726	717	9	703	290	9	-	-	-	-
Industry	20,837	19,559	1,278	20,531	13,941	1,281	460	(189)	(203)	(526)
Construction and real estate - construction (g)	45,662	44,106	1,556	45,588	15,576	1,556	380	(7)	17	(328)
Construction and real estate - real estate activity	26,440	25,313	1,127	26,373	23,878	1,127	751	(303)	(79)	(433)
Electricity and water	4,849	4,483	366	4,569	3,060	366	269	23	4	(68)
Commerce (h)	28,011	26,960	1,051	27,842	22,685	1,033	252	33	13	(321)
Hotels, catering services and food	2,587	2,364	223	2,566	2,307	223	94	(74)	(76)	(28)
Transport and storage	7,872	7,613	259	7,739	6,789	254	169	(52)	(57)	(44)
Communications and computer services	5,707	5,495	212	5,445	4,067	208	197	(15)	(2)	(69)
Financial services	19,520	19,037	483	14,605	10,854	482	476	(82)	(23)	(222)
Business and other services	8,908	8,762	146	8,876	6,264	146	50	95	37	(147)
Public and community services	8,524	8,469	55	8,500	7,148	55	13	5	(5)	(52)
Total commercial	181,811	174,853	6,958	175,502	118,722	6,932	3,204	(543)	(367)	(2,292)
Private individuals - housing loans	80,570	79,850	720	80,570	78,645	719	-	(10)	25	(462)
Private individuals - other	67,691	67,035	656	67,683	38,141	656	108	458	291	(820)
Total public - activity in Israel	330,072	321,738	8,334	323,755	235,508	8,307	3,312	(95)	(51)	(3,574)
Banks in Israel	6,233	6,233	-	1,801	1,742	-	-	(2)	-	(1)
Government of Israel	41,992	41,992	-	206	206	-	-	-	-	-
Total activity in Israel	378,297	369,963	8,334	325,762	237,456	8,307	3,312	(97)	(51)	(3,575)

(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 237,456, 41,059, 1,284, 3,298, 95,200 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 909 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 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
					Of which:[1]			Credit losses (d)		
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	(NIS millions)									
In respect of activity of borrowers abroad										
Public - Commercial										
Agriculture	85	84	1	83	58	1	1	(1)	-	(1)
Mining and quarrying	12	12	-	11	5	-	-	-	-	-
Industry	8,630	8,427	203	7,229	4,613	205	45	(18)	18	(45)
Construction and real estate (g)	13,722	13,193	529	13,342	9,540	529	326	(34)	2	(189)
Electricity and water	169	169	-	80	45	-	-	-	-	-
Commerce	7,015	6,969	46	6,888	4,659	46	39	16	2	(89)
Hotels, catering services and food	1,995	1,991	4	1,978	1,705	4	-	(1)	-	(9)
Transport and storage	131	79	52	115	101	52	43	13	33	(5)
Communications and computer services	2,011	2,011	-	1,810	898	-	-	-	-	(1)
Financial services	16,305	16,201	104	1,972	1,465	104	104	(7)	(3)	(53)
Business and other services	6,402	6,357	45	6,330	5,488	45	18	8	-	(24)
Public and community services	831	789	42	824	463	42	42	(4)	(4)	(19)
Total commercial	57,308	56,282	1,026	40,662	29,040	1,028	618	(28)	48	(435)
Private individuals - housing loans	494	448	46	494	486	46	46	1	6	(11)
Private individuals - other	486	481	5	486	416	5	5	(1)	-	(5)
Total public - activity abroad	58,288	57,211	1,077	41,642	29,942	1,079	669	(28)	54	(451)
Banks abroad	23,561	23,561	-	10,385	9,654	-	-	-	-	-
Governments abroad	15,220	15,220	-	833	436	-	-	-	-	-
Total activity abroad	97,069	95,992	1,077	52,860	40,032	1,079	669	(28)	54	(451)
Total	475,366	465,955	9,411	378,622	277,488	9,386	3,981	(125)	3	(4,026)

(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 40,032, 34,200, -, 7,361, 15,476 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.

Activity and risk restrictions in the construction and real estate sector

The construction and real estate is the area of activity in which the Bank has the greatest exposure of all the corporate market sectors. As with other market sectors, methodologies and parameters for financing transactions in each of the sub-sectors of the real estate industry are defined for the real estate sector as part of the credit risk policy.

The credit portfolio in the area of real estate is closely monitored. In addition, to the test of compliance with the internal and regulatory limits (see below), the trends and development of the risk are tested, including the macroeconomic features of the economy and secondary sectors, including a breakdown of internal ratings, the allocation between the various business lines, central parameters, forward-looking assessment regarding the expected level of risk, etc.

In addition to the regulatory restriction and in order to effectively manage the internal mix of the credit risk, the Bank makes sure to disperse the geographical areas in which the projects are being built according to demand, and between the various sub-sectors.

Below is the breakdown of credit for construction and real estate in the Bank according to total credit to a single borrower:

Total credit to single borrower (NIS millions		Balance of credit	NIS million
From-	To-	31 March 2017	31 December 2016
-	10	**11**	11
10	20	**23**	23
20	40	**68**	64
40	80	**199**	192
80	150	**428**	404
150	300	**834**	818
300	600	**1,708**	1,762
600	1200	**3,069**	3,141
1,200	2,000	**2,405**	2,332
2,000	4,000	**3,445**	3,468
4,000	8,000	**4,444**	4,432
8,000	20,000	**6,399**	6,547
20,000	40,000	**6,025**	5,826
40,000	200,000	**22,518**	21,264
200,000	400,000	**9,734**	10,501
400,000	800,000	**12,603**	11,995
800,000	1,200,000	**4,035**	2,787

Group of borrowers

Limits on indebtedness of a borrower or group of borrowers

1. As at 31 March 2017, the Group had no exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).
2. As at 31 March 2017, 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.

Geographic dispersal

Mapping of exposure data of the activity of borrowers to countries/regions:

Geographical dispersal in the credit portfolio is intended to minimize the risk of economic / political / security deterioration in the policies to which the borrower is exposed, which is likely to lead to impairment in its financial position and ability to meet its obligations.

As part of the information used to determine the internal risk rating of corporate borrowers, aspects relating to geographical exposure, and details of the location of sources of cash flows and/or physical assets used by the borrower in day-to-day activity are taken into account.

As of date, the Bank's credit portfolio contains is no significant concentration in exposure of the corporate borrowers to any foreign country.

This information enables the Bank to conduct an overall examination of borrowers' exposure to the various countries, for the purpose of monitoring and risk management.

In accordance with the directive of Supervisor of Banks, exposure to foreign countries is presented on the basis of ultimate risk.

Exposure by country is divided as follows: United States 45%, Europe (Germany, France, Italy, Spain and the Benelux countries) 20%, United Kingdom, 18% and other countries 17%).

Exposure to foreign countries

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

	31 March 2017					
	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	**5,287**	**2,403**	**9,256**	**24,830**	**13,526**	**11,304**
United Kingdom	**182**	**2,833**	**3,422**	**5,839**	**1,452**	**4,387**
France	**2,135**	**1,286**	**315**	**-**	**-**	**-**
Switzerland	**-**	**1,421**	**701**	**63**	**19**	**44**
Germany	**397**	**3,075**	**327**	**-**	**-**	**-**
Others	**3,805**	**5,271**	**6,002**	**1,049**	**541**	**508**
Total exposure to foreign countries	**11,806**	**16,289**	**20,023**	**31,781**	**15,538**	**16,243**
Total exposure to LDC countries	**203**	**1,131**	**1,017**	**1,034**	**536**	**498**
Total exposure to GIIPS countries (d)	**346**	**7**	**329**	**-**	**-**	**-**

	31 March 2017						
	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	**28,250**	**873**	**369**	**7,126**	**-**	**4,282**	**12,664**
United Kingdom	**10,824**	**191**	**191**	**3,730**	**-**	**2,278**	**4,159**
France	**3,736**	**6**	**6**	**1,069**	**-**	**2,592**	**1,144**
Switzerland	**2,166**	**-**	**-**	**269**	**-**	**1,441**	**681**
Germany	**3,799**	**-**	**-**	**143**	**-**	**1,566**	**2,233**
Others	**15,586**	**114**	**112**	**2,700**	**-**	**7,270**	**7,808**
Total exposure to foreign countries	**64,361**	**1,184**	**678**	**15,037**	**-**	**19,429**	**28,689**
Total exposure to LDC countries	**2,849**	**98**	**96**	**1,754**	**-**	**442**	**1,909**
Total exposure to GIIPS countries (d)	**682**	**-**	**-**	**197**	**-**	**558**	**124**

(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 a bilateral offset in respect of derivatives.

(b) Before the effect of a bilateral offset 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.

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

	31 March 2016						
	Balance sheet exposure(a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Up to one year	Over one year
Country	NIS millions						
United States	36,428	681	287	6,294	-	11,790	13,621
United Kingdom	11,924	237	233	3,621	-	2,952	4,156
France	2,072	18	17	1,097	-	972	1,100
Switzerland	1,897	-	-	401	-	917	505
Germany	2,457	-	-	194	-	1,256	1,201
Others	9,617	258	249	2,467	-	4,510	4,543
Total exposure to foreign countries	64,395	1,194	786	14,074	-	22,397	25,126
Total exposure to LDC countries	2,266	199	189	1,794	-	388	1,326
Total exposure to GIIPS countries (d)	359	-	-	247	-	163	196

(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 a bilateral offset in respect of derivatives.
(b) Before the effect of a bilateral offset 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 (cont.)

	31 December 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	10,013	2,003	9,193	26,847	13,879	12,968
United Kingdom	252	2,534	3,656	6,838	1,567	5,271
France	810	1,350	304	-	-	-
Switzerland	-	576	888	62	29	33
Germany	-	2,201	354	-	-	-
Others	2,726	5,232	4,637	1,164	633	531
Total exposure to foreign countries	13,801	13,896	19,032	34,911	16,108	18,803
Total exposure to LDC countries	397	1,227	679	1,146	633	513
Total exposure to GIIPS countries (d)	372	10	328	-	-	-

	31 December 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	34,177	703	297	7,180	-	5,198	16,011
United Kingdom	11,713	230	229	3,609	-	2,501	3,941
France	2,464	6	6	1,214	-	1,434	1,030
Switzerland	1,497	-	-	358	-	726	738
Germany	2,555	-	-	81	-	1,806	749
Others	13,126	172	165	2,779	-	5,195	7,400
Total exposure to foreign countries	65,532	1,111	697	15,221	-	16,860	29,869
Total exposure to LDC countries	2,816	127	119	1,878	-	397	1,906
Total exposure to GIIPS countries (d)	710	-	-	174	-	511	199

(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 a bilateral offset in respect of derivatives.

(b) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of debt restrictions of a borrower, before the effect of a bilateral offset 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.

Notes:

1. The line "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Conduct of Banking Management Directive no. 315 "Supplementary Allowance for Doubtful Debts".
2. Balance sheet exposure to a foreign country includes balance sheet exposure beyond the border and balance sheet exposure of offices of the banking corporation in Israel for residents of the foreign country and balance sheet exposure of the overseas offices of the banking corporation for residents who are not residents of the country in which the office is located. Balance sheet exposure of the office of the banking corporation in a foreign country for local residents include balance sheet exposure of the office of the banking corporation in that foreign country for its residents, net of the liabilities of those offices. (The deduction is made up to the height of the exposure.)

Part B – On 31 March 2017 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 763 million and relates to 11 countries. (At 31 March 2017, this amounted to NIS 555 million and related to 10 countries, and, at 31 December 2016, this amounted to NIS 656 million and related to 11 countries.)

The following table presents the exposure to countries according to the countries' credit rating as rated by the World Bank, in NIS millions, as at 31 March 2017:

Ranking	Balance sheet exposure	Off-balance sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which problem commercial credit risk
High-income countries	**61,512**	**13,283**	**74,795**	**94.2**	**1,086**
Countries with mid-high income	**2,587**	**1,440**	**4,027**	**5.1**	**94**
Countries with mid-low income	**262**	**313**	**575**	**0.7**	**4**
Countries with low income	**-**	**1**	**1**	**-**	**-**
Total	**64,361**	**15,037**	**79,398**	**100.0**	**1,184**

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.

Credit exposure to foreign financial institutions

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

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

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

	As at 31 March 2017		
	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-	**17,155**	**1,740**	**18,895**
A+ to A-	**2,217**	**3**	**2,220**
BBB+ to BBB-	**471**	**239**	**710**
BB+ to B-	**3**	**14**	**17**
Below B-	**16**	**1**	**17**
Unrated	**211**	**-**	**211**
Total current credit exposure to foreign financial institutions	**20,073**	**1,997**	**22,070**
Problem debt risk	-	-	-

	As at 31 December 2016		
	Balance sheet credit risk (b)	Securities (c)	Current credit exposure
	NIS millions		
Current credit exposure to foreign financial institutions (d)			
AAA to AA-	15,338	2,508	17,846
A+ to A-	1,985	12	1,997
BBB+ to BBB-	571	395	966
BB+ to B-	4	27	31
Below B-	18	-	18
Unrated	347	-	347
Total current credit exposure to foreign financial institutions	18,263	2,942	21,205
Problem debt risk	-	-	-

(a) Foreign financial institutions include banks, investment banks, dealers/brokers, 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 417 million as at 31 March 2017 and NIS 478 million as at 31 December 2016.
(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

Developments in credit risks

In recent years, there has been increasing demand for housing credit in Israel, both for residential purposes and for the purpose of investment

As a result of these trends and in order to ensure effective risk management, the housing loan portfolio is routinely monitored with analysis of the trends in the risk features and focal points, particularly for the following features: financing rates, monthly repayment ability and credit rating according to the Bank's internal statistical model.

The Bank adheres closely to a balance underwriting policy which takes into consideration the borrower's ability to repay, the rate of financing, the linkage basis and the interest rate, etc., meeting all of the requirements of the Banking Supervision Department.

As part of extending housing loans, individual loans were made to participants in a purchasing group. Financing in the context of a purchasing group provides a solution to the market demands of private organizations, associations, historical land-owners, etc. From the aspect of risk, financing is provided to various populations in a geographical dispersal, and after each borrower has undergone a review of their ability to repay the loan.

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 first quarter		
	2017	2016	Change
	NIS millions		%
From Bank funds	**1,850**	2,703	(31.6)
From Ministry of Finance funds:			
Directed loans	**3**	3	-
Standing loans	**2**	2	-
Total new loans	**1,855**	2,708	(31.5)
Refinanced loans	**237**	654	(63.8)
Total performance	**2,092**	3,362	(37.8)

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 2015	80,105	9.1
31 December 2016	78,183	(2.4)
31 March 2017	**77,510**	**(0.9)**

In the first quarter of 2017, the downward trend in the volume of housing credit continued, owing to a decrease in the volume of loans extended and from the sharing of the extension of loans with an institutional entity.

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 2015	44,138	55.1	34,511	43.1	1,456	1.8	80,105
31 December 2016	44,954	57.5	31,986	40.9	1,243	1.6	78,183
31 March 2017	**44,824**	**57.8**	**31,539**	**40.7**	**1,147**	**1.5**	**77,510**

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 2015	13,062	12,477	31,076	22,034	1,456	80,105
31 December 2016	14,178	11,792	30,776	20,194	1,243	78,183
31 March 2017	**14,278**	**11,583**	**301,546**	**19,956**	**1,147**	**77,510**

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:

	2017	**2016**				2015
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual average
	Percentage of loans granted %					
Fixed – index-linked	**16.7**	18.3	17.6	18.9	19.4	18.6
Variable every 5 years and above – index-linked	**16.2**	14.2	13.4	12.1	13.9	13.3
Variable up to 5 years – index-linked	**0.2**	0.3	0.3	0.6	1.2	1.2
Fixed – unlinked	**27.5**	29.4	29.7	32.1	29.0	32.1
Variable every 5 years and above – unlinked	**7.3**	8.3	8.1	7.7	6.8	6.0
Variable up to 5 years – unlinked	**31.5**	29.0	30.5	28.3	29.4	28.3
Variable – foreign currency	**0.6**	0.5	0.4	0.3	0.3	0.5

The percentage of new credit extended by the Bank in variable interest housing loans during the first quarter of 2017 stood at 55.8%, compared with 51.2% in 2016. 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, in which the variable rate of interest varies each period of 5 years and more (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 32.3% during the first quarter of 2017, compared with 30.2% in 2016.

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 2015	80,602	768	1.0
31 December 2016	78,645	749	1.0
31 March 2017	**77,969**	**728**	**0.9**

The allowance for credit losses as at 31 March 2017, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 459 million, representing 0.60% of the housing credit balance, similar to the balance of the allowance as at 31 December 2016.

Data relating to new housing credit in Israel:

In the first quarter of 2017, the Bank extended new housing loans amounting to NIS 1.9 billion from the Bank's funds. In 2016, new housing loans amounting to NIS 9.8 billion were extended from the Bank's funds.

The average loan extended by the Bank in 2016 was NIS 525 thousand, compared to NIS 555 thousand in 2016 and NIS 623 thousand in 2015.

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:

	2017	2016				2015
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%					
Between 60% and 70% (inclusive)	**15.7**	15.6	18.4	16.3	15.5	18.8
Between 70% and 80% (inclusive)	**14.3**	14.7	17.8	12.7	13.5	16.7
Above 80%	**0.1**	0.1	0.1	0.1	0.2	1.1

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

The average rate of financing of the balance of the credit portfolio as of 31 March 2017 stands at 46.6%, compared with 47.1% in 2016.

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

Loans made in the first quarter of 2017 in which the repayment ratio is lower that 2.5 at the date of approval of the credit, stood at 1.4% of the total new extensions of new credit, compared with 1.8% for 2016.

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

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

The percentage of the new credit of housing loans in the first quarter of 2017, in which repayment dates according to loan contracts are longer than 25 years, stood on average at 34.4% of the total of new credit extended, compared with 35.9% for 2016 and 30.0% for 2015.

Credit risk to private individuals (excluding housing loans)

Total credit to private individuals (hereinafter: "private credit"), as well as the credit mix, is derived from household activity in Israel. The key indicator reflecting the level of household activity is the level of private consumption which, in recent years, has been on a trend of significant expansion.

Private credit, the repayment ability of which is chiefly based on a household's earnings capacity, is characterized by an extremely wide dispersal of borrowers, a range of credit products (various types of loans, current accounts, credit cards) and (on average) a low level of credit to a single customer.

In order to ensure effective risk management, the Bank operates under strict internal administrative restrictions, primarily in the following features: rates of financing, monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model.

The activity of private customers is concentrated in the Banking Division through branches dispersed throughout the country and through online channels, provides a varied service, adapted to the various customer sectors.

In order to contend with the growth in the levels of private credit and with the wide extent of control which is necessary to manage it and in order to implement proper corporate governance, a number of functions were expanded and strengthened, both in the first line in the Banking Division and in the Risk Management Division, which constitutes the second line of defense.

The private credit policy formulated by the Risk Management Division in conjunction with the Banking Division constitutes an important layer in the outline on the risk appetite and the direction of the current management of this activity.

In light of decisions taken by management and the Board of Directors not to increase the risk appetite in this segment, the increased close monitoring of developments in this portfolio is continuing.

The development of private credit risk balances in the Bank (activity in Israel, excluding housing loans) is as follows:

	Credit risk balance
	NIS millions
December 2015	46,461
December 2016	49,987
March 2017	**50,210**

The breakdown of private credit risk in the Bank by size of credit to a single borrower is as follows:

Size of credit risk (NIS millions)		31 March 2017		31 December 2016	
From -	To	NIS millions	Percentage of portfolio	NIS millions	Percentage of portfolio
-	25,000	**5,039**	**10.00%**	5,062	10.13%
25,000	50,000	**7,430**	**14.80%**	7,489	14.98%
50,000	75,000	**6,960**	**13.86%**	7,023	14.05%
75,000	100,000	**6,183**	**12.31%**	6,221	12.45%
100,000	150,000	**8,842**	**17.61%**	8,817	17.64%
150,000	200,000	**5,426**	**10.85%**	5,356	10.70%
200,000	300,000	**5,487**	**10.93%**	5,423	10.85%
300,000 and above		**4,843**	**9.64%**	4,596	9.20%

The breakdown of private credit risk in the Bank (activity in Israel, excluding housing loans) is as follows:

	31 March 2017		31 December 2016	
	Credit risk NIS millions	% Overall credit	Credit risk NIS millions	% Overall credit
Current accounts and balance utilized in credit cards	**7,241**	**14.4**	7,394	14.8
Loans to purchase motor vehicles (on liens)	**2,602**	**5.2**	2,585	5.2
Other loans				
Other	**22,072**	**44.0**	21,775	43.5
Total balance sheet credit risk	**31,915**	**63.6**	31,754	63.5
Unutilized current account facility	**7,074**	**14.1**	6,992	14.0
Unutilized credit card facility	**10,835**	**21.5**	10,905	21.8
Other off balance sheet credit risk	**386**	**0.8**	335	0.7
Total off-balance sheet credit risk	**18,295**	**36.4**	18,232	36.5
Overall total credit risk	**50,210**	**100.0**	49,986	100.0

Breakdown of debts and problem credit risk from the total of debts to private individuals in the Bank (activity in Israel, excluding housing loans)

	31 March	31 December	
	2017	2016	2015
	NIS millions		
Non-problem credit	**31,606**	31,369	28,166
Unimpaired credit	**207**	294	161
Impaired problem credit	**102**	91	44
Total balance sheet credit risk	**31,915**	31,754	28,371
Problem credit risk as a percentage of total private individuals	**1.0%**	1.2%	0.7%

For further information, including relating to problem debts and expenses in respect of credit losses, see Note 6 and Note 13 and the chapter on Exposure to Risks, section "Overall credit risk to the public by sector of the economy".

Exposure of the Bank to leveraged finance

Proper Conduct of Banking Business Directive 311 provides that a bank's credit policy should relate, *inter alia*, to leveraged finance. The Bank operates according to unique principles in a credit policy for this segment, including from the aspect of financial parameters, authorities, etc.

On 1 January 2016, Proper Conduct of Banking Management Directive no. 323 (Restrictions on the Financing of Capital Transactions) and Proper Conduct of Banking Management Directive no. 327 (Leveraged Loan Management) came into force. The Bank complies with the provisions of these new directives.

Leveraged financing is defined by the Bank complying with and expanding the updated directives.

However, we would point out that total leveraged credit in the Bank has been on a decreasing trend for some years.

The following table sets out the aggregate credit balances to leveraged borrowers, to each of which the credit balance is an amount of 0.5% and above of the Tier 1 capital as of the reporting date, divided by sector of economy:

	31 March	31 December	
	2017	2016	2015
Market sector	NIS millions		
Supply of electricity	**808**	601	258
Mining and quarrying	**384**	377	394
Commerce	**737**	541	499
Real estate	**-**	434	1,619
Financial services	**517**	596	621
Transport and storage	**424**	434	705
Industry	**876**	877	466
Total	**3,746**	3,860	4,562

Market Risk

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.

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 policy reflects the Group's market risk strategy. This is alongside the existing procedures for detecting, measuring, monitoring, developing and controlling the market risks. The policy 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 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 average duration, and is significantly affected by changes in the capitalization interest. The capitalization rate used for the calculation of the actuarial liability for employee rights was made on the basis of the Government debentures in Israel, with the addition of a fixed margin curve of corporate debentures with an international AA, which corresponds to the average duration of the liability for employee rights.

In the first quarter of 2017, there were no significant changes in the organizational structure, policies and corporate governance of market risk management.

Market risks to which the Bank is exposed -

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 as well.

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.

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 scenario								
	31 March 2017			31 March 2016			31 December 2016		
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	**(220)**	**6**	**(12)**	(460)	591	(51)	(12)	(227)	10
Trading portfolio	**(84)**	**87**	**(8)**	(56)	45	(6)	37	(45)	4
In foreign currency:									
Banking portfolio	**(46)**	**(97)**	**(3)**	45	(90)	5	(42)	(143)	0
Trading portfolio	**70**	**(112)**	**10**	(79)	(18)	(2)	52	(49)	5

	Potential change in annual profit				
	31 March 2017		31 March 2016	31 December 2016	
	Israeli currency	Foreign currency	Total	Israeli currency	Foreign currency
Total	**357**	**363**	501	523	215

* The calculation of exposure to a decrease in interest of 1% is based on lowering the rate of interest on the credit and deposits at this rate, since the rate of interest on many of the deposits are currently below 1, and since there is a low probability that the interest on the deposits will fall below 0%. The calculation of the exposure presented above should be considered as being in conformity with generally accepted standards.

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

	Exposure in Israeli currency			Exposure in foreign currency		
	31 March 2017					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest *	**1,317**	**(1,712)**	**149**	**(329)**	**177**	**(29)**
	31 March 2016					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest *	868	(1,218)	104	(445)	320	(39)
	31 December 2016					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest *	1,537	(1,978)	176	(435)	268	(40)

* This measurement includes the exposure to an immediate change in the interest of the nostro portfolios which have been revalued 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 31 March 2017 is estimated to be a decrease in the value of the assets amounting to NIS 115 million (NIS 100 million at 31 March 2016 and NIS 117 million at December 2016) in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the employee rights standard, according to which the capital adequacy ratio is computed.

Sensitivity of the fair value of assets and liabilities to interest

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

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

	31 March 2017					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**278,016**	**46,964**	**64,899**	**9,636**	**9,144**	**408,659**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**250,545**	**6,838**	**213,951**	**56,656**	**32,366**	**560,356**
Financial liabilities (a)	**232,360**	**53,790**	**89,790**	**12,992**	**6,976**	**395,908**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**272,941**	**8,691**	**191,043**	**53,679**	**35,012**	**561,366**
Net fair value of financial instruments	**23,260**	**(8,679)**	**(1,983)**	**(379)**	**(478)**	**11,741**

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

	31 December 2016					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	278,940	48,232	69,263	8,061	8,561	413,057
Amounts receivable in respect of derivative financial and off-balance sheet instruments	252,169	6,790	214,767	55,373	28,222	557,321
Financial liabilities (a)	231,563	55,451	91,577	15,107	7,038	400,736
Amounts payable in respect of derivative financial and off-balance sheet instruments	276,575	8,526	193,704	48,587	30,473	557,865
Net fair value of financial instruments	22,971	(8,955)	(1,251)	(260)	(728)	11,777

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

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

	31 March 2017							
	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	Total
	NIS millions						NIS millions	%
Immediate corresponding increase of 1%	**22,577**	**(7,145)**	**(2,446)**	**(413)**	**(477)**	**12,096**	**355**	**3.02**
Immediate corresponding increase of 0.1%	**23,197**	**(8,506)**	**(2,025)**	**(383)**	**(478)**	**11,805**	**64**	**0.55**
Immediate corresponding decrease of 1%	**23,863**	**(10,691)**	**(1,696)**	**(340)**	**(479)**	**10,657**	**(1,084)**	**(9.23)**

	31 March 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	Total
	NIS millions						NIS millions	%
Immediate corresponding increase of 1%	23,555	(9,613)	(1,284)	(744)	(748)	11,166	34	0.31
Immediate corresponding increase of 0.1%	24,660	(11,218)	(820)	(718)	(751)	11,153	21	0.19
Immediate corresponding decrease of 1%	26,228	(13,686)	(395)	(685)	(754)	10,708	(424)	(3.81)

	31 December 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	Total
	NIS millions						NIS millions	%
Immediate corresponding increase of 1%	22,574	(7,363)	(1,820)	(281)	(720)	12,390	613	5.21
Immediate corresponding increase of 0.1%	22,937	(8,771)	(1,304)	(262)	(728)	11,872	95	0.81
Immediate corresponding decrease of 1%	23,260	(11,050)	(849)	(239)	(736)	10,386	(1,391)	(11.81)

(a) This measurement includes the exposure to an immediate change in the interest of the nostro portfolios which have been revalued 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 31 March 2017 is estimated to be a decrease in the value of the assets amounting to NIS 115 million (NIS 100 million at 31 March 2016 and NIS 117 million at 31 December 2016) 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 (302) million (at 31 March 2016 NIS (209) million and at 31 December 2016 NIS (345) million), an immediate corresponding decrease of 1% - NIS 165 million (at 31 March 2016 – NIS 86 million and at 31 December 2016 - NIS 171 million).

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

Exposure to interest rate fluctuations

	31 March 2017												31 March 2016			31 December 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**	**Over twenty years**	**Without fixed maturity**	**Total fair value**	**Internal rate of return**	**Average effective duration (b)**	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
	NIS millions										**%**	**Years**		%	Years		%	Years
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	**199,942**	**12,756**	**27,939**	**19,409**	**8,313**	**7,111**	**1,595**	**334**	**617**	**278,016**	**3.04**	**0.60**	262,457	2.78	0.97	278,940	3.30	0.56
Derivative financial instruments (excluding options)	**44,359**	**76,833**	**38,825**	**38,465**	**20,154**	**24,219**	**104**	**47**	**-**	**243,006**	**-**	**1.61**	270,676	-	1.40	247,093	-	1.50
Options (in terms of the underlying asset) (c)	**1,701**	**1,467**	**2,427**	**1,379**	**558**	**7**	**-**	**-**	**-**	**7,539**	**-**	**-**	5,326	-	-	5,076	-	-
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Total fair value	**246,002**	**91,056**	**69,191**	**59,253**	**29,025**	**31,337**	**1,699**	**381**	**617**	**528,561**	**3.04**	**1.06**	538,459	2.78	1.18	531,109	3.30	0.99
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	**183,211**	**5,747**	**17,326**	**17,262**	**6,482**	**2,295**	**37**	**-**	**-**	**232,360**	**1.05**	**0.38**	215,246	1.18	0.55	231,563	1.00	0.42
Derivative financial instruments (excluding options)	**54,482**	**80,514**	**46,035**	**39,036**	**23,320**	**24,191**	**338**	**23**	**-**	**267,939**	**-**	**1.51**	293,517	-	1.35	273,646	-	1.44
Options (in terms of the underlying asset) (c)	**787**	**1,861**	**1,385**	**859**	**3**	**49**	**34**	**-**	**-**	**4,978**	**-**	**-**	4,871	-	-	2,905	-	-
Off-balance sheet financial instruments	**-**	**-**	**24**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**0.50**	31	-	0.50	24	-	0.50
Total fair value	**238,480**	**88,122**	**64,770**	**57,157**	**29,805**	**26,535**	**409**	**23**	**-**	**505,301**	**1.05**	**0.98**	513,665	1.18	1.00	508,138	1.00	0.97
Financial instruments, net																		
Exposure to interest rate changes in the segment	**7,522**	**2,934**	**4,421**	**2,096**	**(780)**	**4,802**	**1,290**	**358**										
Accumulated exposure in the sector	**7,522**	**10,456**	**14,877**	**16,973**	**16,193**	**20,995**	**22,285**	**22,643**										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	**1,307**	**2,626**	**10,291**	**14,266**	**9,513**	**5,294**	**2,024**	**1,633**	**10**	**46,964**	**2.70**	**3.82**	51,807	2.09	3.56	48,232	2.44	3.82
Derivative financial instruments (excluding options)	**107**	**405**	**1,662**	**2,225**	**1,324**	**1,115**	**-**	**-**	**-**	**6,838**	**-**	**2.55**	7,255	-	3.00	6,790	-	2.65
Options (in terms of the underlying asset)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Off-balance sheet financial instruments (c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Total fair value	**1,414**	**3,031**	**11,953**	**16,491**	**10,837**	**6,409**	**2,024**	**1,633**	**10**	**53,802**	**2.70**	**3.66**	59,062	2.09	3.49	55,022	2.44	3.68
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	**721**	**2,739**	**9,113**	**7,744**	**13,128**	**3,853**	**862**	**-**	**-**	**38,160**	**0.75**	**2.88**	45,953	0.76	2.90	38,888	0.82	2.91
Derivative financial instruments (excluding options)	**320**	**253**	**2,190**	**2,769**	**1,164**	**1,791**	**59**	**-**	**-**	**8,546**	**-**	**2.86**	8,248	-	2.94	8,391	-	2.78
Options (in terms of the underlying asset) (c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Off-balance sheet financial instruments	**-**	**-**	**145**	**-**	**-**	**-**	**-**	**-**	**-**	**145**	**-**	**-**	115	-	-	135	-	-
Total fair value	**1,041**	**2,992**	**11,448**	**10,513**	**14,292**	**5,644**	**921**	**-**	**-**	**46,851**	**0.75**	**2.87**	54,316	0.76	2.90	47,414	0.82	2.88
Financial instruments, net																		
Exposure to interest rate changes in the segment	**373**	**39**	**505**	**5,978**	**(3,455)**	**765**	**1,103**	**1,633**	**-**									
Accumulated exposure in the sector	**373**	**412**	**917**	**6,895**	**3,440**	**4,205**	**5,308**	**6,941**	**-**									

Exposure to interest rate fluctuations (cont.)

	31 March 2017												31 March 2016			31 December 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	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effectiveduration (b)	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
	NIS millions										(%)	(Years)		(%)	(Years)		(%)	(Years)
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)	41,388	11,805	9,481	8,184	4,755	6,651	983	134	298	83,679	1.98	1.24	84,772	1.64	1.27	85,885	2.48	1.26
Of which; compound financial instruments	2,589	940	596	1,218	1,119	1,505	651	66	-	8,684	2.60	3.49	10,654	2.83	2.44	10,029	2.83	3.44
Derivative financial instruments (excluding options)	89,451	89,815	69,521	21,186	6,422	18,105	393	67	-	294,960	-	0.97	273,534	-	0.96	291,443	-	0.96
Options (in terms of the underlying asset) (d)	(1,742)	4,061	5,343	79	(36)	1	307	-	-	8,013	-	-	10,245	-	-	6,919	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	129,097	105,681	84,345	29,449	11,141	24,757	1,683	201	298	386,652	1.98	1.01	368,551	1.64	1.01	384,247	2.48	1.01
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	82,207	9,447	13,874	3,458	336	17	42	1	10	109,392	0.62	0.17	109,076	0.99	0.27	113,337	1.08	0.18
Derivative financial instruments (excluding options)	76,802	64,365	72,436	25,287	8,312	21,378	510	320	-	269,410	-	1.22	250,858	-	1.16	263,660	-	1.19
Options (in terms of the underlying asset) (d)	(1,895)	3,726	6,390	1,118	588	11	378	-	-	10,316	-	-	10,475	-	-	9,090	-	-
Off-balance sheet financial instruments	-	-	8	-	-	-	-	-	-	8	-	0.50	6	-	0.50	14	-	0.50
Total fair value	157,114	77,538	92,708	29,863	9,236	21,406	930	321	10	389,126	0.62	0.89	370,415	0.99	0.87	386,101	1.08	0.87
Financial instruments, net																		
Exposure to interest rate fluctuations	(28,017)	28,143	(8,363)	(414)	1,905	3,351	753	(120)	-									
Accumulated exposure in the sector	(28,017)	126	(8,237)	(8,651)	(6,746)	(3,395)	(2,642)	(2,762)	-									
Total exposure to interest rate fluctuations																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a) (c)	242,637	27,187	47,711	41,859	22,581	19,056	4,602	2,101	4,478	412,212	2.68	1.10	402,379	2.33	1.37	416,301	2.78	1.09
Derivative financial instruments (excluding options)	133,917	167,053	110,008	61,876	27,900	43,439	497	114	1,629	546,433	-	1.27	552,974	-	1.20	547,007	-	1.23
Options (in terms of the underlying asset) (d)	(42)	5,528	7,770	1,458	522	8	307	-	131	15,682	-	-	15,571	-	-	12,132	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	376,512	199,768	165,489	105,193	51,003	62,503	5,406	2,215	6,238	974,327	2.68	1.18	970,924	2.33	1.25	975,440	2.78	1.15
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)(c)	266,139	17,933	40,313	28,464	19,946	6,165	941	1	1,250	381,152	0.87	0.57	371,055	0.96	0.76	385,128	0.93	0.60
Derivative financial instruments (excluding options)	131,604	145,132	120,661	67,092	32,796	47,360	907	343	1,108	547,003	-	1.39	554,045	-	1.29	547,167	-	1.34
Options (in terms of the underlying asset) (d)	(1,108)	5,587	7,775	1,977	591	60	412	-	58	15,352	-	-	15,346	-	-	11,995	-	-
Off-balance sheet financial instruments	-	-	177	-	-	-	-	-	196	373	-	0.04	337	-	0.07	353	-	0.06
Total fair value	396,635	168,652	168,926	97,533	53,333	53,585	2,260	344	2,612	943,880	0.87	1.04	940,783	0.96	1.06	944,643	0.93	1.02
Financial instruments, net																		
Exposure to interest rate fluctuations	(20,123)	31,116	(3,437)	7,660	(2,330)	8,918	3,146	1,871										
Accumulated exposure in the sector	(20,123)	10,993	7,556	15,216	12,886	21,804	24,950	26,821										
In addition, exposure to interest rates in respect of liabilities for employee rights' gross - pension and severance pay	53	106	479	1,290	1,257	3,253	5,135	4,423	-	15,996	2.60	15.32	16,544	2.31	15.98	16,948	2.23	15.49

Exposure to interest rate fluctuations (cont.)

(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 916 million.
(b) Weighted average according to fair value of effective average duration.
(c) Including non-monetary items shown in the "Without maturity period" column.
(d) Average duration less than 0.05 years.
(e) Including Israeli currency linked to foreign currency.
(f) Including the fair value of the actuarial liability for employees and does not include the value of the plan assets.

General notes:

1. In this table, the data by periods represent the present value of future cash flows, discounted at the internal rate of return used for discounting to the fair value included in respect of the financial instrument, consistent with the assumptions used in calculating the fair value of the financial instrument.
   For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 15A.
2. The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
3. The effective average 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 average duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early repayments and withdrawals at exit points in savings plans, in accordance with a model estimating expected early repayments based on the behavior of savers. The average duration of total assets according to the original cash flow of the savings plans is higher and reaches 3.64 years, the average duration of total liabilities reaches 2.87 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 1.34%. The change in fair value in total assets is an increase of NIS 1,545 million and in total liabilities, an increase of NIS 1 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:

	31 March 2017			31 December 2016		
	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**	**3.66**	**1.01**	0.99	3.68	1.01
Average duration of liabilities (a)	**0.98**	**2.87**	**0.89**	0.97	2.88	0.87
Duration gap in years	**0.08**	**0.79**	**0.12**	0.02	0.80	0.14
IRR gap (%)	**1.99**	**1.95**	**1.36**	2.30	1.62	1.40

(a) Including futures 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 and in the unlinked shekel 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 2.87 years, and the internal rate of return gap (hereinafter "IRR") amounts to 1.34%.

Early repayments of mortgages are taken into account in the figures set forth above. The average duration of the assets at the end of the reported period, according to the original cash flow which does not take into account early repayments, is longer, reaching 3.64 years, and the IRR gap amounts to 1.34%.

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, 0.98 years, and in foreign currency, 0.89 years, and the difference in the IRR amounts to 1.96% and 0.86%, 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.

The following table sets out the actual economic exposure at Group level. The data is presented in terms of percentages of the exposed capital:

	Actual position 31 March		31 December
	2017	2016	2016
	%		
Unlinked	**(15.3)**	(6.3)	(19.0)
CPI-linked *	**14.4**	7.1	17.7
Foreign currency	**0.9**	(0.8)	1.3

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

In the first quarter of 2017, the percentage of capital invested on average over the year in the index-linked segment was 17.5%. During the year, this percentage ranged from a surplus of 13.5% to 21.8% of the exposed capital. Capital was channeled to the foreign currency sector at a relatively low rate, and therefore, the effect of the change in exchange rate on profit was not material.

In the first quarter of 2017, the Group complied with all the basis exposure limits approved by the Board of Directors.

Liquidity risk

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.

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.

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

	For the three months ended 31 March		For the three months ended 31 December
	2017	2016	2016
	%		
a. In consolidated data			
Liquidity coverage ratio	**131**	125	132
Minimum liquidity coverage ratio required by the Supervisor of Banks	**100**	80	80
b. In data of the banking corporation			
Liquidity coverage ratio	**131**	124	130
Minimum liquidity coverage ratio required by the Supervisor of Banks	**100**	80	80

Linkage Status

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

	31 March 2017			31 December 2016		
	Unlinked	CPI-linked	Foreign currency (b)	Unlinked	CPI-linked	Foreign currency (b)
	NIS millions					
Total assets (a)	**295,103**	**47,508**	**114,017**	293,216	48,573	119,752
Total liabilities (a)	**266,091**	**48,117**	**116,609**	265,263	49,057	121,733
Surplus (deficit) of assets in segment	**29,012**	**(609)**	**(2,592)** (c)	27,953	(484)	(1,981) (c)

(a) Includes futures 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, an investment in shares and reserves classified as a non-monetary item, and in respect of hedging of futures income in foreign currency.

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 March 2017 stood at NIS 55 billion, compared with NIS 60 billion at the end of 2016.

In addition, the Bank has a securities portfolio of some NIS 72 billion, invested mostly in Israeli government debentures and foreign government debentures. This is in comparison with the balance as at 31 December 2016 amounting to NIS 70 billion.

The balance of liquid assets accounted for 32.6% of the Bank's financial assets, a decrease of 1.3%, compared with 31 December 2016.

Operational Risks

An operational risk is defined as the risk of a loss resulting from inadequate or failed internal processes, people, systems, or external events.

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

The Group's operational risk management policy is approved annually in the Board of Directors. The policy establishes the perception of operational risk management in Leumi through principles and guidelines, including: risk management adapted to activity in the various business lines, tightening the responsibility of the risk-takes in the first line of defense, an integrative overview and accessibility of the management information, focusing on risk with the potential for significant implications and real-time involvement in risk management in material products and projects.

During the first quarter of 2017, there were no significant changes in the organizational structure, policy or corporate governance of operational risk management.

The global cyber attack in May 2017, which exploited a security breach in the "Windows" software, did not affect the Bank and did not cause any damage.

Other risks

Regulation and compliance risks

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

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

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.

The Chief Compliance Officer is also in charge of enforcement in the area of securities law and as responsible officer in the area of FATCA, as outlined below.

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.

The department is in ongoing connection with subsidiaries in Israel and abroad for the purpose of monitoring the implementation of compliance matters in their entirety and the implementation of Group compliance policy.

Pursuant to the developing trends around the world, the Bank deals with a range of issues on the matter of compliance, the prohibition of money laundering and the prohibition of the financing of terrorism and aspects of taxation and reporting to the relevant tax authorities and to the customer.

B. Enforcement

In January 2011, the Efficiency of Enforcement Procedures in the Securities Authority Law (Legislative Amendments), 2011, was passed in the Knesset. As part of this legislation, it will be possible to impose various sanctions on a corporation, and on employees of the corporation, including the office-holders. Further to the law, the Securities Authority published a document of criteria for recognition of an internal enforcement program in the area

The Chief Compliance Officer of the Group acts as the officer in charge of the enforcement.

The Board of Directors has approved the internal enforcement program after it was validated by an external expert and after the central enforcement procedures were reviewed by him.

C. Foreign Account Tax Compliance Act – FATCA

In March 2010, a reporting regime was amended, which aims to compel foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers.

The Bank operates on a number of layers in order to ensure the compliance of Leumi Group and individuals therein, with the provisions of the legislation: the appointment of a compliance officer as the 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 subsidiaries in the Group towards the appropriate preparedness.

D. OECD – Standards for Automatic Exchange of Financial Account Information

In 2013, the OECD organization published a uniform standard for implementing the Automatic Exchange of Information regarding intergovernmental financial accounts (hereinafter: the "standard"). The standard is formulated in the spirit of the United States FATCA and is intended to increase transparency and supervision of tax reporting by residents of the countries holding financial accounts outside their countries of residence. In July 2016, the Law for the Amendment of the Income Tax Ordinance (No. 227) regarding the implementation of FATCA and the implementation of the standard was published. The regulations for implementing the standard have not yet been published.

Leumi is prepared for complying with the requirements of the standard. The offices of Bank Leumi in the UK and in Romania commenced implementing the standard on 1 January 2016 pursuant to the provisions of local regulation to which they are subject. Bank Leumi will begin to implement the standard in 1 July 2017 pursuant to the provisions of the regulations in Israel.

Legal Risks

This chapter is set out in greater detail in the Annual Financial Statements for 2016 (pages 102-103), 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 changes, 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 that 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 2016.

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 estimates 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 2016 were as follows: allowance for credit losses and the classification of problem debts, derivative instruments, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment, intangible assets and taxes on income.

Obligations regarding employee rights

The amounts of the obligations for pension 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 in accordance with the alternative which the Bank chose from those 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, which matches the average duration of the liabilities for employee rights.

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 31 March 2017, the balance of accumulated other comprehensive income in respect of employee benefits amounted to a negative balance of NIS 1,837 million, after the effect of tax, a decrease of NIS 332 million after the effect of tax compared with 31 December 2016.

The balance of the liability for employee benefits as at 31 March 2017 at the capitalization rate on the basis of corporate debentures in Israel ("deep market for the approach of the Israel Securities Authority") is NIS 335 million less than the actual liability balance.

The computation of the capital requirements pursuant to the Basel III provisions will be made in accordance with the transitional provisions established in Proper Conduct of Banking Business Directive no. 299, which provides that the balance of other comprehensive income or loss arising from adjustments in respect of employee benefits , and the amount carried directly to retained earnings as of 1 January 2013 in respect of the effect of initial adoption will not be brought into account immediately, but will be subject to the transitional provisions, so that their effect will be spread as follows: 40% from 1 January 2015, and a further 20% on 1 January of each year, until full implementation commencing 1 January 2018.

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 2017, the Bank will carry 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 31 March 2017, 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-March 2017, the Board of Directors held 6 plenary meetings and 18 committee meetings.

At the Meeting of the Board of Directors that took place on 25 May 2017, it was decided to approve and publish the audited consolidated financial statements of the Group as at 31 March 2017 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

25 May 2017

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 31 March 2017 (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.

25 May 2017

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 31 March 2017 (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.

25 May 2017

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 31 March 2017 (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.

25 May 2017

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

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

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. and its subsidiaries (hereinafter: "the Bank"), comprising the condensed consolidated interim balance sheet as of 31 March 2017 and the condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three-month period ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for this interim period based on our review.

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 with 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, nothing has come to our attention that causes us to believe that the above mentioned 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, paragraph 2, regarding claims made against the Bank 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

25 May 2017

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Profit and Loss
for the period ended 31 March 2017

	Note	For the three months ended 31 March		For the year ended 31 December
		2017	2016	2016
		Unaudited		Audited
Interest income	**2**	**2,319**	1,925	9,552
Interest expenses	**2**	**446**	270	2,026
Net interest income	**2**	**1,873**	1,655	7,526
Expenses (income) in respect of credit losses	**6, 13**	**101**	(123)	(125)
Net interest income, after expenses in respect of credit losses		**1,772**	1,778	7,651
Non-interest income				
Non-interest financing income	**3**	**255**	24	1,282
Commissions		**1,018**	988	3,967
Other income		**14**	20	159
Total non-interest income		**1,287**	1,032	5,408
Operating and other expenses				
Salaries and related expenses		**1,291**	1,242(a)	5,422
Maintenance and depreciation of buildings and equipment		**435**	394(a)	1,697
Other expenses		**324**	354(a)	1,461
Total operating and other expenses		**2,050**	1,990	8,580
Profit before taxes		**1,009**	820	4,479
Provision for taxes on the profit		**388**	371	1,717
Profit after taxes		**621**	449	2,762
Share of the banking corporation in profits after tax of companies included on equity basis		**10**	19	66
Net profit:				
Before attribution to non-controlling interests		**631**	468	2,828
Attributable to non-controlling interests		**(9)**	(9)	(37)
Attributable to shareholders of the Bank		**622**	459	2,791
Basic and diluted earnings per share (NIS)				
Basic earnings attributable to shareholders of the Bank		**0.41**	0.31	1.85
Diluted earnings attributable to shareholders of the Bank		**0.41**	0.31	1.84

(a) Reclassified.

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: 25 May 2017

Bank Leumi Le-Israel B.M. and its Consolidated Companies
Condensed Consolidated Statement of Comprehensive Income
for the period ended 31 March 2017

	For the 3 months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
Net profit before attribution to non-controlling interests	**631**	468	2,828
Less net profit attributed to non-controlling interests	**9**	9	37
Net profit attributed to shareholders of the Bank	**622**	459	2,791
Other comprehensive income (loss) before taxes:			
Adjustments for showing securities available for sale at fair value, net	**20**	156	(281)
Adjustments for translation of financial statements, net (a), after effect of tax in hedges (b)	**12**	(12)	(11)
Adjustments of liabilities in respect of employee benefits (c)	**502**	(872)	(928)
Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis	**(8)**	(9)	(20)
Other comprehensive income (loss) before taxes	**526**	(737)	(1,240)
Relevant tax effect	**(240)**	188	376
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**286**	(549)	(864)
Less other comprehensive income attributed to non-controlling interests	**-**	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**286**	(549)	(864)
Comprehensive income (loss) before attribution to non-controlling interests	**917**	(81)	1,964
Less comprehensive income attributed to non-controlling interests	**9**	9	37
Comprehensive income (loss) attributed to shareholders of the Bank	**908**	(90)	1,927

(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 other 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 31 March 2017

		31 March 2017	31 March 2016	31 December 2016
		Unaudited		Audited
		NIS millions		
Assets	**Note**			
Cash and deposits with banks		**68,275**	55,648	74,757
Securities (a)(b)	**5**	**77,959**	78,727	77,201
Securities borrowed or purchased under agreements to resell		**903**	1,621	1,284
Credit to the public	**6, 13**	**268,172**	267,672 (d)	265,450
Allowance for credit losses	**6, 13**	**(3,465)**	(3,539) (d)	(3,537)
Credit to the public, net		**264,707**	264,133	261,913
Credit to governments		**620**	412	642
Investments in companies included on equity basis		**878**	899	901
Buildings and equipment		**3,016**	3,060	3,147
Intangible assets and goodwill		**17**	17	17
Assets in respect of derivative instruments	**11**	**11,032**	13,150	10,654
Other assets (a)		**7,891**	7,890	8,087
Total assets		**435,298**	425,557	438,603
Liabilities and equity				
Deposits of the public	**7**	**341,663**	330,354	346,854
Deposits from banks		**4,493**	4,441	3,394
Deposits from governments		**770**	808	900
Securities lent or sold under agreements to repurchase		**481**	845	539
Bonds, debentures and subordinated notes		**22,689**	24,810	22,640
Liabilities in respect of derivative instruments	**11**	**11,272**	13,996	10,677
Other liabilities (a)(c)		**21,309**	20,650	21,885
Total liabilities		**402,677**	395,904	406,889
Non-controlling interests		**366**	340	367
Equity attributable to shareholders of the banking corporation	**9**	**32,255**	29,313	31,347
Total equity		**32,621**	29,653	31,714
Total liabilities and equity		**435,298**	425,557	438,603

(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 514 million (at 31 March 2016 – NIS 471 million, at 31 December 2016 – NIS 488 million).
(d) 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 Statement of Changes in Shareholders' Equity
for the period ended 31 March 2017

	For the three months ended 31 March 2017 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others [(a)]	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
	NIS millions								
Balance at 31 December 2016 (Audited)	7,109	1,722	36	8,867	(2,312)	24,792	31,347	367	31,714
Net profit for the period	-	-	-	-	-	622	622	9	631
Other comprehensive profit, net, after effect of tax	-	-	-	-	286	-	286	-	286
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Balance at the end of the period	7,109	1,722	36	8,867	(2,026)	25,414	32,255	366	32,621

	For the 3 months ended 31 March 2016 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
	NIS millions								
Balance at 31 December 2015 (Audited)	7,059	1,129	43	8,231	(1,448)	21,984	28,767	340	29,107
Net profit for the period	-	-	-	-	-	459	459	9	468
Other comprehensive profit, net, after effect of taxes	-	-	-	-	(549)	-	(549)	-	(549)
Issuance of shares	49	587	-	636	-	-	636	-	636
Changes in non-controlling interests	-	-	-	-	-	-	-	(9)	(9)
Balance at the end of the period	7,108	1,716	43	8,867	(1,997)	22,443	29,313	340	29,653

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

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 Equity
for the year ended 31 December 2016

	For the year ended 31 December 2016 (Audited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
	NIS millions								
Balance at 31 December 2015	7,059	1,129	43	8,231	(1,448)	21,984	28,767	340	29,107
Net profit for the period	-	-	-	-	-	2,791	2,791	37	2,828
Adjustments in respect of companies included on equity basis, net	-	-	-	-	-	17	17	-	17
Other comprehensive profit, net, after effect of taxes	-	-	-	-	(864)	-	(864)	-	(864)
Issuance of shares	50	593	(7)	636	-	-	636	-	636
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Balance at 31 December 2016	7,109	1,722	36	8,867	(2,312)	24,792	31,347	367	31,714

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

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
for the period ended 31 March 2017

	For the 3 months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Cash flows generated by operating activity			
Net profit for the period	**631**	468	2,828
Adjustments:			
Group share in undistributed losses (profits) of companies included on equity basis (a)	**14**	6	(28)
Depreciation of buildings and equipment (including impairment)	**183**	145	663
Expenses (income) in respect of credit losses	**101**	(123)	(125)
Profit from sale of credit portfolio	**-**	-	(44)
Profits on sale of securities available for sale (including impairment)	**(43)**	(91)	(857)
Realized and unrealized gain from adjustment to fair value of securities held for trading	**186**	14	116
Gain on realization of investment in companies included on equity basis	**-**	-	(7)
Loss on realization of buildings and equipment	**-**	1	(66)
Provision for impairment of shares available for sale	**-**	1	6
Expenses deriving from share-based payment transactions	**-**	-	10
Deferred taxes , net	**(72)**	(173)	43
Severance pay and pension - increase in surplus of provision over fund	**504**	186 (b)	288
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**7**	160	312
Interest not yet paid for debentures and subordinated notes	**162**	88	782
Effect of exchange-rate differences on balances of cash and cash equivalents	**587**	227	591
Other, net	**-**	11	-
Net change in current assets:			
Deposits in banks	**(37)**	377 (b)	(207)
Credit to the public	**(3,884)**	(3,166)	(2,942)
Credit to governments	**22**	41	(189)
Securities borrowed or purchased under agreements to resell	**381**	143	480
Assets in respect of derivative instruments	**(381)**	(1,901)	595
Securities held for trading	**81**	2,163	3,322
Other assets	**(250)**	62	(223)
Net change in current liabilities:			
Deposits from banks	**1,317**	651	(447)
Deposits of the public	**(3,950)**	2,343	18,358
Deposits from governments	**(92)**	78	156
Securities lent or sold under agreements to repurchase	**(58)**	(93)	(399)
Liabilities in respect of derivative instruments	**642**	2,848	(314)
Other liabilities	**(505)**	(296) (b)	369
Net cash generated by operating activity	**(4,454)**	4,170	23,071

(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 31 March 2017

	nonths ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Cash flows generated by investment activity			
Acquisition of securities available for sale	**(28,021)**	(35,022)	(92,212)
Proceeds from sale of securities available for sale	**14,057**	11,504	35,438
Proceeds from redemption of securities available for sale	**12,691**	12,120	45,457
Proceeds from redemption of bonds held to redemption	**57**	-	-
Proceeds from sale of credit portfolio	**-**	-	2,723
Proceeds from realization of investment in companies included on equity basis	**-**	-	73
Acquisition of buildings and equipment	**(215)**	(267)	(634)
Proceeds from realization of buildings and equipment	**3**	4	99
Proceeds from realization of assets transferred to Group ownership	**2**	2	2
Central severance pay fund	**289**	-	173
Net cash for investment activity	**(1,137)**	(11,659)	(8,881)
Cash flows generated by financing activity			
Issue of debentures and subordinated notes	**-**	4,442 (a)	4,442
Redemption of debentures and subordinated notes	**(113)**	(1,028) (a)	(3,892)
Dividend paid to minority shareholders of consolidated companies	**(10)**	(9)	(10)
Additional purchase of shares in consolidated companies	**-**	-	-
Loans to employees for purchase of the Bank's shares	**-**	-	-
Net cash for financing activity (from financing activity)	**(123)**	3,405	540
Increase (decrease) in cash and cash equivalents	**(5,714)**	(4,084)	14,730
Balance of cash and cash equivalents at beginning of period	**72,269**	58,130	58,130
Effect of movements in exchange rates on cash balances and cash equivalents	**(587)**	(227)	(591)
Balance of cash and cash equivalents at end of period	**65,968**	53,819	72,269

Interest and taxes paid and/or received and dividends received

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Interest received	**2,658**	2,564	9,864
Interest paid	**(366)**	(531)	(3,041)
Dividends received	**32**	27	48
Taxes paid on income	**(352)**	(401)	(1,629)

(a) Reclassified.

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

For the three months ended 31 March 2017:

On 1 January 2017, a balance of NIS 957 million was classified from the available-for-sale securities portfolio to the held-for-maturity bond portfolio.
See Note 1A.3.

For the year ended 31 December 2016:

During the year, fixed assets were acquired against liabilities to suppliers in the amount of NIS 119 million.

During the year, shares were issued against conversion of rights accruing to employees in the amount of NIS 636 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 31 March 2017 have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with the directives and instructions of the Supervisor of Banks regarding the preparation of quarterly financial statements of a banking corporation. In most matters, these directives are based on US GAAP. In other subjects which are less material, the directives are based on certain International Financial Reporting Standards (IFRS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Israeli GAAP.

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

The accounting principles used in preparing the interim statements are consistent with those used in preparing the audited financial statements as at 31 December 2016, except as described in paragraph B below. These reports are to be read in conjunction with the annual financial statements as at 31 December 2016 and the accompanying notes. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 25 May 2017.

2. Use of estimates

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

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

Changes in estimates

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

3. Reclassification

As of 1 January 2017, the Bank was permitted to renew classification of bonds held to redemption. As a result, the Bank classified from the available-for-sale securities portfolio to the held-for-maturity bond portfolio of a foreign subsidiary an amount of about NIS 957 million. Pursuant to Bank of Israel directives, when transferring bonds from the available-for-sale securities portfolio to the held-for-maturity bond portfolio, an unrealized profit or loss from adjustments to fair value at the date of transfer continues to be shown in shareholders' equity, but from that date forward it will be amortized to profit and loss over the remaining duration of the bond. The amount of loss in the capital reserve at the date of transfer is about NIS 35 million.

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

For reporting periods commencing 1 January 2017, the Bank implements the accounting standards and directives set out below:

1. Reporting by banking corporations in Israel under US GAAP on: foreign currency issues, accounting policy, changes in accounting estimates and errors and events after the balance sheet date.

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 are included in the following codification subjects and subject to the guidelines set forth in the directives of the Banking Supervision Department:

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 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 financial statements were no longer adjusted for inflation. Below are the main points of the directive as adopted in the Public Reporting Directives:

Determining the functional currency – the functional currency of an entity is the currency of the main economic environment in which the entity operates, generally, the main environment where the entity produces and spends its cash funds. US standards provide a "framework" and various "considerations" that are to be taken into account but without any unequivocal criteria. The capability of the entity to be independent is to be taken into account. Discretion is to be applied in determining the functional currency.

Regarding foreign operations, we should note that the capital reserve for translation differences will be calculated pursuant to the method of consolidation in stages only.

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 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.

The instructions of the circular are to be implemented as of 1 January 2017 and 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.

Implementing the circular did not have any material effect on the financial statements.

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

On 22 October 2015, a circular was issued entitled "Reporting by banking corporations in Israel under 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 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".

On 13 October 2016, the Banking Supervision Department published a circular entitled "Reporting by banking corporation in Israel under US GAAP". The circular includes certain clarifications on the subject of reporting on taxes on income according to the US principles.

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.
- Investments in local subsidiaries - deferred tax liabilities are to be recognized unless the tax laws allow tax-exempt recovery of the investment with no significant cost and the parent company expects to make an eventual recovery in this way (the ability and the intention).
- Investment in foreign subsidiaries - deferred tax liabilities are to be recognized unless the investor can control the date of reversal and non-distributed profits will be re-invested indefinitely or they can be distributed tax-free.
- Uncertain tax positions – a tax benefit is to be recognized when it is expected (more probable than not) that it will be utilized. The amount of the tax benefit to be recognized is the highest amount expected (more than 50%) to be received.
- Deferred taxes in respect of share-based payment arrangements – temporary differences generated in share-based payment arrangements are based on the cost amount of compensation recognized in profit and loss without further adjustments until the benefit is realized.

- Liabilities or deferred tax assets are not to be recognized in respect of temporary differences related to non-monetary assets and non-monetary liabilities, when their tax base is denominated in a currency other than the functional currency of the entity, when the differences are generated in respect of changes in exchange rates or in respect of linkage for tax purposes.
- Changes in tax rates – subsequent changes in deferred taxes that are generated following changes in the tax rates will generally be recorded to profit and loss in the current period even if the deferred taxes have been initially recognized in equity.
- A deferred tax asset will be recognized only if it appears that the temporary difference will be reversed in the foreseeable future. On recognition of the asset, it should be determined whether there is a future taxable profit against which it will be possible to deduct the difference so as to determine whether there is a need to record a Valuation Allowance. Subsequent changes in the Valuation Allowance will be recognized in profit and loss in the current period even if the allowance was initially recognized in equity.

The Bank implements these directives as of 1 January 2017.

Implementation of the circular did not have any material effect on the financial statements.

3. New standard update on share-based based payment

On 30 March 2016, the U.S. Financial Accounting Standards Board 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 tax effects related to share-based payment transactions are to be recognized at the time of settlement or expiration through profit and loss. Until the introduction of the amendment, surplus tax benefits that exceeded the expense recognized in the statement of profit and loss (known as "windfalls") were recognized in equity, and shortfalls in a tax benefit which were less than the expense recognized in the statement of profit and loss (known as "shortfalls") were recognized in equity until the elimination of prior balances from surplus tax benefits. In the absence of such surpluses, the deficits are recognized in profit and loss. The amendment is expected to increase the volatility of tax expenses on income. This change is to be implemented prospectively.

- Surplus 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. The directive may be applied retroactively or prospectively.

- 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. Insofar as an entity elects to change its accounting policy on the matter, the change will be applied retroactively and the cumulative effect will be charged to the opening balance of retained earnings.

Implementation of the circular did not have any material effect on the financial statements.

4. New standard update on the equity base method and joint ventures

In March 2016, the US Financial Accounting Standards Board published Standard No. 2016-07, Codification Topic 323 on the equity base method and joint ventures.

In accordance with the amendment, the cost of acquisition of the additional investment is to be added to the present base of the previous investment and the equity base method is to be applied at the date that the purchaser achieves significant influence on its investment; i.e. the comparative figures should not be retroactively adjusted.

Gains or losses previously recognized in other comprehensive income in respect of available for sale investments will be reclassified to profit or loss on the date of transition to implementation of the equity base method.

The implementation of the standard update did not have a material effect on the financial statements.

5. Standard update on the impact of replacement of a derivative contract for existing hedge accounting relationships

In March 2016, the U.S. Financial Accounting Standards Board published Standard Update 2016-07 on Codification Topic 815 - Derivatives and Hedging, which determines that changing the counterparty of a derivative designated as a hedging instrument in accordance with Topic 815 does not detract from the designation itself, provided that all other criteria for hedge accounting continue to exist.

Implementation of the standard update did not have any 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 the publication of 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.

The Standard includes a five-step model to determine the timing and amount of revenue recognition:

- Identifying the contract with the customer
- Identifying separate performance commitments in the contract
- Determining the transaction price
- Assigning the transaction price to separate performance commitments
- Recognizing income while meeting the performance commitments

In March 2016, the US Financial Accounting Standards Board published Update 2016-04 on Recognition of Breakage for Certain Prepaid Stored-Value Products, which represents an amendment to Codification Topic 405-20 on Liabilities – Extinguishments of Liabilities.

The aim of the Amendment is to set clearer rules for extinguishing liabilities related to unrealized customer rights ("breakage") in prepaid stored-value products such as Gift cards, or Traveler's Checks.

The new standard does not apply, inter alia, to financial instruments and rights or contractual obligations within the scope of Codification Topic 310. 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. In light of this, the new directives will not affect most of the Bank's income.

The amendments regarding income from contracts with customers are to be applied as of 1 January, 2018. Initial implementation will be applied retroactively, with restatement of comparative figures.

2. FAQ on the implementation of the Public Reporting Directives on the subject of impaired debts, credit risk and allowances for credit losses

On 20 February, 2017, an update was published to the FAQ file of the Banking Supervision Department on the subject of "Implementation of the Public Reporting Directives on the subject of impaired debts, credit risk and allowances for credit losses". The update relates mainly to the classification of debt, the definition of impaired debt and the measurement of an individual allowance for credit losses.

Determining the appropriate classification of a debt until a default occurs, or when its probability is highly probable, is based on the borrower's repayment ability, i.e. the expected strength of the primary repayment source defined as follows: Primary repayment source - a long-term sustainable cash source that must be controlled by the debtor and which must be explicitly or substantially separated to cover the debt.

These provisions of the circular are to be applied from 1 July 2017 onwards. Implementation of the circular is not expected to have any material effect on the Bank.

3. Reporting by Banking Corporations in accordance with US GAAP

On 13 October 2016, the Banking Supervision 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 initial 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.

4. Standard update on impairment of goodwill

In January 2017, the U.S. Financial Accounting Standards Board published Update 2017-04, which constitutes an amendment to the provisions of ASC 350 regarding "Intangible assets - goodwill and others".

In accordance with the amendment, it is no longer required to calculate the fair value of the goodwill and to recognize impairment in respect of the difference between fair value and book value. Impairment of goodwill will be recognized in the amount of the difference between the fair value of the reported unit and its book value. However, the impairment loss shall not exceed the amount of goodwill allocated to the reporting unit.

This change is required to be applied prospectively from 1 January 2020. Early implementation is possible.

Note 2 – Interest income and expenses

	For the three months ended 31 March	
	2017	2016
	Unaudited	
	NIS millions	
A. Interest income (a)		
From credit to the public	**2,104**	1,739
From credit to governments	**5**	3
From deposits with Bank of Israel and cash	**13**	10
From deposits with banks	**29**	15
From securities borrowed or purchased under agreement to resell	**-**	1
From debentures (b)	**168**	157
Total interest income	**2,319**	1,925
B. Interest expenses (a)		
On deposits of the public	**(278)**	(176)
On deposits from governments	**(1)**	(1)
On deposits from banks	**(4)**	(2)
On securities lent or sold under agreement to repurchase	**-**	(1)
On debentures, bonds and subordinated notes	**(163)**	(90)
Total interest expenses	**(446)**	(270)
Total interest income, net	**1,873**	1,655
C. Details of the net effect of hedging derivative instruments on interest income and expenses (c)		
Interest income	**(42)**	(11)
D. Details of accumulated interest income from bonds		
Available for sale	**157**	130
For trading	**11**	27
To redemption	**-** (d)	-
Total included in interest income	**168**	157

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 52 million for the three-month period which ended on 31 March 2017 (NIS 50 million for the three-month period which ended on 31 March 2016.

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

(d) Amounts less than NIS 1 million.

Note 3 – Non-interest income and expenses

	For the three months ended 31 March	
	2017	2016
	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)	**(1,169)**	(880)
Total from activity in derivative instruments	**(1,169)**	(880)
A.2. From investment in bonds		
Profits from sale of bonds available for sale(f)	**20**	13
Losses from sale of bonds available for sale(f)	**(15)**	(4)
Total from investment in bonds	**5**	9
A.3. Exchange rate differentials, net	**1,559**	826
A.4. Profits (losses) from investment in shares		
Profits from sale of shares available for sale (c)(f)	**48**	92
Losses from sale of shares available for sale (e)(f)	**(10)**	(11)
Dividend from shares available for sale	**8**	2
Total from investment in shares	**46**	83
Total non-interest financing income in respect of activities not for trading purposes	**441**	38
B. Non-interest financing income in respect of activities not for trading purposes		
Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (d)	**(186)**	18
Realized and unrealized losses from fair value adjustments of shares held for trading, net	**-**	(32)
Total from trading activities (g),(h)	**(186)**	(14)
Total non-interest financing income in respect of activities not for trading purposes	**255**	24

(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) Includes mainly profit from the sale of Kenon and Fortissimo in the amount of NIS 14 million and NIS 17 million respectively before the effect of tax for the three-month period which ended on 31 March 2017 (for the three-month period which ended on 31 March 2016 – profit from the sale of Dalia in the amount of NIS 61 million).

(d) Of which: part of the profits (losses) in the amount of NIS 20 million for the three-month period which ended on 31 March 2017 (NIS 85 million for the three-month period which ended on 31 March 2016), which relate to bonds held for trading still held at the balance sheet date.

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

(f) Reclassified from accumulated other comprehensive income.

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

(h) Including exchange rate differentials deriving from trading activity.

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 which ended on 31 March 2017 and 2016

	Other comprehensive income 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 on equity basis	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 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	96	(44)	(9)	(592)	(549)	-	(549)
Balance at 31 March 2016 (unaudited)	163	(111)	29	(2,082)	(2,001)	(4)	(1,997)
Balance at 31 December 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change in the period	**11**	**(49)**	**(8)**	**332**	**286**	**-**	**288**
Balance at 31 March 2017 (unaudited)	**(75)**	**(128)**	**10**	**(1,837)**	**(2,030)**	**(4)**	**(2,026)**

2. Changes in accumulated other comprehensive income (loss) for the year ended 31 December 2016

	Other comprehensive income 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 on equity basis	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 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in the period	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at 31 December 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)

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

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

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

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

	For the three months ended 31 March					
	2017			2016		
	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	**63**	**(21)**	**42**	246	(84)(e)	162
Losses (profits) in respect of securities available for sale reclassified to the statement of profit and loss (a)	**(43)**	**12**	**(31)**	(90)	24(e)	(66)
Net change in the period	**20**	**(9)**	**11**	156	(60)	96
Translation adjustments (b)						
Adjustments for translation of financial statements	**(159)**	**-**	**(159)**	(99)	-	(99)
Hedges (c)	**171**	**(61)**	**110**	87	(32)	55
Net change in the period	**12**	**(61)**	**(49)**	(12)	(32)	(44)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**(8)**	**-**	**(8)**	(9)	-	(9)
Net change in the period	**(8)**	**-**	**(8)**	(9)	-	(9)
Employee benefits:						
Actuarial loss (profit) in the period	**418**	**(141)**	**277**	(926)	299	(627)
Profits (losses) net that were reclassified to the statement of profit and loss	**84**	**(29)**	**55**	54	(19)	35
Net change during the period	**502**	**(170)**	**332**	(872)	280	(592)
Total net change during the period (d)	**526**	**(240)**	**286**	(737)	188	(549)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:	0	0	0	0	0	0
Total net change in the period	**526**	**(240)**	**286**	(737)	188	(549)

(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		
	2016		
	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	570	(194)	376
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss [(a)]	(851)	322	(529)
Net change in the period	(281)	128	(153)
Translation adjustments [(b)]			
Adjustments for translation of financial statements	(9)	-	(9)
Hedges [(c)]	(2)	(1)	(3)
Net change in the period	(11)	(1)	(12)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	(20)	-	(20)
Net change in the period	(20)	-	(20)
Employee benefits:			
Actuarial loss (profit) in the period	(1,241)	361	(880)
Profits (losses) net that were reclassified to the statement of profit and loss	313	(112)	201
Net change during the period[(d)]	(928)	249	(679)
Total net change during the period	(1,240)	376	(864)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests	-	-	-
Total net change in the period	(1,240)	376	(864)

(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 5 - Securities

	As at 31 March 2017 (Unaudited)				
			Accumulated other comprehensive profit (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Profits	Losses	Fair value (a)
	NIS millions				
1. Debentures held to redemption					
Government of Israel	**37**	**37**	**-**	**-**	**37**
Foreign governments	**352**	**352**	**2**	**(16)**	**338**
Asset-backed	**466**	**466**	**1**	**(13)**	**454**
Total dentures held to redemption	**855**	**855**	**3**	**(29)**	**829**

	As at 31 March 2017 (Unaudited)				
			Accumulated other comprehensive profit (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Profits	Losses	Fair value (a)
	NIS millions				
2. Securities available for sale:					
Debentures -					
Government of Israel	**36,781**	**36,863**	**83**	**(165)**	**36,781**
Foreign governments	**10,276**	**10,322**	**2**	**(48)**	**10,276**
Financial institutions in Israel	**23**	**22**	**1**	**-**	**23**
Financial institutions abroad	**8,387**	**8,360**	**38**	**(11)**	**8,387**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**8,424**	**8,497**	**30**	**(103)**	**8,424**
Others in Israel	**292**	**275**	**17**	**-**	**292**
Others abroad	**2,291**	**2,291**	**18**	**(18)**	**2,291**
	66,474	**66,630**	**189**	**(345)**	**66,474**
Shares and mutual funds (b)	**2,393**	**2,354**	**70**	**(31)**	**2,393**
Total securities available for sale (f)	**68,867**	**68,984**	**259(c)**	**(376)(c)**	**68,867**

See notes on page 105.

Note 5 - Securities (cont'd)

	As at 31 March 2017 (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				
3. Securities held for trading:					
Debentures -					
Government of Israel	**5,038**	**5,020**	**19**	**(1)**	**5,038**
Foreign governments	**1,630**	**1,630**	**-**	**-**	**1,630**
Financial institutions in Israel	**211**	**211**	**-**	**-**	**211**
Financial institutions abroad	**414**	**414**	**1**	**(1)**	**414**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**260**	**260**	**2**	**(2)**	**260**
Others in Israel	**145**	**143**	**2**	**-**	**145**
Others abroad	**539**	**537**	**4**	**(2)**	**539**
	8,237	**8,215**	**28**	**(6)**	**8,237**
Shares and mutual funds	**-**	**-**	**-**	**-**	**-**
Total securities held for trading	**8,237**	**8,215**	**28** (d)	**(6)** (d)	**8,237**
Total securities	**77,959**	**78,054**	**290** (d)	**(411)** (d)	**77,933**

Note 5 - Securities (cont'd)

	As at 31 March 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	36,808	36,403	406	(1)	36,808
Foreign governments	11,758	11,726	33	(1)	11,758
Financial institutions in Israel	35	33	2	-	35
Financial institutions abroad	5,471	5,469	31	(29)	5,471
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	9,957	9,942	59	(44)	9,957
Others in Israel	555	533	22	-	555
Others abroad	1,777	1,727	58	(8)	1,777
	66,361	65,833	611	(83)	66,361
Shares and mutual funds (b)	2,596	2,610	91	(105)	2,596
Total securities available for sale (f)	68,957	68,443	702 (c)	(188) (c)	68,957

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

See notes on page 105.

Note 5 - Securities (cont'd)

	As at 31 December 2016 (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	35,409	35,386	131	(108)	35,409
Foreign governments	11,929	11,998	12	(81)	11,929
Financial institutions in Israel	23	22	1	-	23
Financial institutions abroad	7,460	7,452	27	(19)	7,460
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	9,749	9,892	21	(164)	9,749
Others in Israel	296	280	16	-	296
Others abroad	1,882	1,892	13	(23)	1,882
	66,748	66,922	221	(395)	66,748
Shares and mutual funds (b)	1,942	1,860	97	(15)	1,942
Total securities available for sale (f)	68,690	68,782	318 (c)	(410) (c)	68,690

	As at 31 December 2016 (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	5,091	5,086	12	(7)	5,091
Foreign governments	2,458	2,457	1	-	2,458
Financial institutions in Israel	159	159	-	-	159
Financial institutions abroad	104	105	-	(1)	104
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	280	280	2	(2)	280
Others in Israel	132	130	2	-	132
Others abroad	286	284	4	(2)	286
	8,510	8,501	21	(12)	8,510
Shares and mutual funds	1	1	-	-	1
Total securities held for trading	8,511	8,502	21 (d)	(12) (d)	8,511
Total securities (f)	77,201	77,284	339	(422)	77,201

See notes on page 105.

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 912 million (31 March 2016 - NIS 1,066 million, 31 December 2016 - NIS 981 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 16 million at 31 March 2016.
(f) Amount of NIS 8.2 billion out of the total of foreign currency securities are Supernationals, Sovereign and Agencies (SSA) (31 March 2016 - NIS 6.3 billion, 31 December 2016 - NIS 7.5 billion).

General notes:

Securities lent in the amount of NIS 266 million (31 March 2016 - NIS 400 million, 31 December 2016 - NIS 324 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 4,445 million (31 March 2016 - NIS 4,078 million, 31 December 2016 - NIS 4,272 million).

For details of 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.

On 1 January 2017, the balance of NIS 957 million of the portfolio of securities available for sale was classified to the portfolio of debentures held to redemption. See Note 1A.3.

Note 5 - Securities (cont'd)

Additional details in respect of amortized cost and unrealized losses, by period and rate of impairment, of bonds held to redemption in an unrealized loss position

	31 March 2017 (Unaudited)									
	Less than 12 months (a)					12 months and more (b)				
		Unrealized losses					Unrealized losses			
	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total
	(NIS millions)									
Bonds										
Foreign governments	**260**	**16**	**-**	**-**	**16**	**-**	**-**	**-**	**-**	**-**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**373**	**13**	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**-**
Total securities available for sale	**633**	**29**	**-**	**-**	**29**	**-**	**-**	**-**	**-**	**-**

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

	31 March 2017 (Unaudited)									
	Less than 12 months (a) (g)					12 months and more (b) (g)				
		Unrealized losses					Unrealized losses			
	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total
	(NIS millions)									
Bonds										
State of Israel	**11,342**	**165**	**-**	**-**	**165**	**-**	**-**	**-**	**-**	**-**
Foreign governments	**6,894**	**48**	**-**	**-**	**48**	**-**	**-**	**-**	**-**	**-**
Financial institutions abroad	**3,839**	**10**	**-**	**-**	**10**	**17**	**1**	**-**	**-**	**1**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**5,408**	**102**	**-**	**-**	**102**	**47**	**1**	**-**	**-**	**1**
Others in Israel	**-**	**-**	**-**	**-**	**-**	**3**	**-** (f)	**-**	**-**	**-**
Others abroad	**981**	**18**	**-**	**-**	**18**	**-**	**-**	**-**	**-**	**-**
Shares and mutual funds	**528**	**15**	**-**	**-**	**15**	**266**	**16**	**-**	**-**	**16**
Total securities available for sale	**28,992**	**358**	**-**	**-**	**358**	**333**	**18**	**-**	**-**	**18**

(a) Investments in an unrealized loss position continuing for less than 12 months.
(b) Investments in an unrealized loss position continuing for 12 months and more.
(c) Investments of which the unrealized loss represents 20% of their amortized cost.
(d) Investments of which the unrealized loss represents 20% to 35% of their amortized cost.
(e) Investments of which the unrealized loss represents more than 35% of their amortized cost.
(f) Losses less than NIS 1 million.
(g) Amounts credited to capital reserve as part of other comprehensive income, net of tax effect.

Note 5 - Securities (cont'd)

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

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

	31 December 2016 (Audited)									
	Less than 12 months (a) (g)					12 months and more (b) (g)				
		Unrealized losses					Unrealized losses			
	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total	Fair value	0-20% (c)	20% -35% (d)	More than 35% (e)	Total
	(NIS millions)									
Bonds										
State of Israel	24,825	108	-	-	108	-	-	-	-	-
Foreign governments	5,438	80	1	-	81	38	- (f)	-	-	-
Financial institutions abroad	4,810	16	-	-	16	16	3	-	-	3
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,782	163	-	-	163	53	1	-	-	1
Others in Israel	3	- (f)	-	-	-	-	-	-	-	-
Others abroad	1,018	23	-	-	23	-	-	-	-	-
Shares and mutual funds	54	3	-	-	3	172	12	-	-	12
Total securities available for sale	43,930	393	1	-	394	279	16	-	-	16

(a) Investments in an unrealized loss position continuing for less than 12 months.
(b) Investments in an unrealized loss position continuing for 12 months and more.
(c) Investments of which the unrealized loss represents 20% of their amortized cost.
(d) Investments of which the unrealized loss represents 20% to 35% of their amortized cost.
(e) Investments of which the unrealized loss represents more than 35% of their amortized cost.
(f) Losses less than NIS 1 million.
(g) Amounts credited to capital reserve as part of other comprehensive income, net of tax effect.

Note 5 - Securities (cont'd)

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

	31 March 2017 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	fair value (a)	Fair value	fair value (a)	Fair value	fair value (a)
	(NIS millions)					
Mortgage-backed securities (MBS)	**2,019**	**(54)**	**46**	**(1)**	**2,065**	**(55)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**2,991**	**(47)**	**-**	**-**	**2,991**	**(47)**
Asset-backed securities (ABS)	**398**	**(1)**	**1**	**-**	**399**	**(1)**
Total	**5,408**	**(102)**	**47**	**(1)**	**5,455**	**(103)**

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

	31 December 2016 (Audited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value (a)	Fair value	Unrealized losses from adjustments to fair value (a)	Fair value	Unrealized losses from adjustments to fair value (a)
	(NIS millions)					
Mortgage-backed securities (MBS)	2,918	(75)	52	(1)	2,970	(76)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	4,417	(88)	-	-	4,417	(88)
Asset-backed securities (ABS)	447	-	1	-	448	-
Total	7,782	(163)	53	(1)	7,835	(164)

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

Note 5 - Securities (cont'd)

Additional information on mortgage-backed securities held to redemption

	As at 31 March 2017 (Unaudited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
1. Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**280**	-	**(11)**	**269**
Other mortgage-backed securities	**186**	**1**	**(2)**	**185**
Total other mortgage-backed securities	**466**	**1**	**(13)**	**454**
Total mortgage-backed securities (MBS)	**466**	**1**	**(13)**	**454**
Total mortgage-backed and asset-backed securities held to redemption	**466**	**1**	**(13)**	**454**

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

	As at 31 March 2017 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income (loss) (a)		Fair value
		Profits	Losses	
	(NIS millions)			
'es available for sale (Pass-through securities)				
Securities guaranteed by GNMA	**218**	**-**	**(6)**	**212**
Securities issued by FNMA and FHLMC	**1,668**	**-**	**(47)**	**1,621**
Other securities	**706**	**6**	**(2)**	**710**
Total mortgage-backed pass-through securities	**2,592**	**6**	**(55)**	**2,543**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**3,994**	**5**	**(47)**	**3,952**
Other mortgage-backed securities	**205**	**2**	**-**	**207**
Total other mortgage-backed securities	**4,199**	**7**	**(47)**	**4,159**
Total mortgage-backed securities	**6,791**	**13**	**(102)**	**6,702**
Asset-backed securities (ABS)				
Credit card receivables	**-**	**-**	**-**	**-**
Other credit to private persons	**305**	**7**	**-**	**312**
Credit not to private persons	**1**	**-**	**-**	**1**
CLO-type debentures	**1,400**	**10**	**(1)**	**1,409**
Total asset-backed securities	**1,706**	**17**	**(1)**	**1,722**
Total mortgage-backed and asset-backed debentures available for sale	**8,497**	**30**	**(103)**	**8,424**

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

Note 5 - Securities (cont'd)

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

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

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

Note 5 - Securities (cont'd)

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

	As at 31 December 2016 (Audited)			
		Accumulated other comprehensive income (loss) (a)		
	Amortized cost	Profits	Losses	Fair value
	(NIS millions)			
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	281	-	(8)	273
Securities issued by FNMA and FHLMC	2,039	-	(53)	1,986
Securities issued by others	743	-	(15)	728
Total mortgage-backed pass-through securities	3,063	-	(76)	2,987
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	4,539	1	(85)	4,455
Other mortgage-backed securities	544	2	(3)	543
Total other mortgage-backed securities	5,083	3	(88)	4,998
Total mortgage-backed securities (MBS)	8,146	3	(164)	7,985
Asset-backed securities (ABS)				
Credit card receivables	-	-	-	-
Other credit to private persons	332	4	-	336
Credit not to private persons	1	-	-	1
CLO-type debentures	1,413	14	-	1,427
Total asset-backed securities	1,746	18	-	1,764
Total mortgage-backed and asset-backed debentures available for sale	9,892	21	(164)	9,749

(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 31 March 2017 (Unaudited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
3. Debentures held for trading (Pass-through securities)				
Securities issued by FNMA and FHLMC	**5**	**-**	**-**	**5**
Total mortgage-backed pass-through securities	**5**	**-**	**-**	**5**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Other mortgage-backed securities	**74**	**1**	**-**	**75**
Total other mortgage-backed securities	**74**	**1**	**-**	**75**
Total mortgage-backed securities (MBS)	**79**	**1**	**-**	**80**
Asset-backed securities (ABS)				
Credit card receivables	**11**	**-**	**-**	**11**
Credit for purchase of vehicle	**57**	**-**	**-**	**57**
Other credit to private persons	**11**	**-**	**-**	**11**
Others	**102**	**1**	**(2)**	**101**
Total	**181**	**1**	**(2)**	**180**
Total mortgage-backed and asset-backed debentures held for trading	**260**	**2**	**(2)**	**260**

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

(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 2016 (Audited)			
	Amortized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)			
3. 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	86	-	-	86
Total other mortgage-backed securities	86	-	-	86
Total mortgage-backed securities (MBS)	92	-	-	92
Asset-backed securities (ABS)				
Credit card receivables	12	-	-	12
Credit for purchase of vehicle	51	-	-	51
Other credit to private persons	12	-	-	12
Others	113	2	(2)	113
Total asset-backed securities	188	2	(2)	188
Total mortgage-backed and asset-backed debentures held for trading	280	2	(2)	280

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

Note 6 – Credit Risk, Credit to the Public and Allowance for Credit Losses

A. Debts[a], credit to the public and balance of allowance for credit losses

	31 March 2017 (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	**109,675**	**41**	**575**	**110,291**	**7,758**	**118,049**
Examined on a collective basis[1]	**40,677**	**78,420**	**38,784**	**157,881**	**3,357**	**161,238**
[1]Of which: the allowance was calculated by extent of arrears	**979** (c)	**77,978**	**-**	**78,957**	**-**	**78,957**
Total debts(a)	**150,352**	**78,461**	**39,359**	**268,172**	**11,115**	**279,287**
[2]Of which:						
Debts under restructuring	**1,777**	**-**	**95**	**1,872**	**-**	**1,872**
Other impaired debts	**1,497**	**-**	**72**	**1,569**	**-**	**1,569**
Total impaired debts	**3,274**	**-**	**167**	**3,441**	**-**	**3,441**
Debts in arrears of 90 days or more	**151**	**698**	**86**	**935**	**-**	**935**
Other problem debts	**2,621**	**-**	**364**	**2,985**	**-**	**2,985**
Total impaired debts	**6,046**	**698**	**617**	**7,361**	**-**	**7,361**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,845**	**6**	**67**	**1,918**	**1**	**1,919**
Examined on a collective basis[2]	**419**	**464**	**664**	**1,547**	**-**	**1,547**
[2]Of which the allowance was calculated by extent of arrears	**-**	**459** (b)	**-**	**459**	**-**	**459**
Total allowance for credit losses[3]	**2,264**	**470**	**731**	**3,465**	**1**	**3,466**
[3]Of which in respect of impaired debts	**658**	**-**	**20**	**678**	**-**	**678**

(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 290 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

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

A. Debts[a], credit to the public and balance of allowance for credit losses (cont.)

	31 March 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	112,810 (d)	61	1,823(d)	114,694	8,174	122,868
Examined on a collective basis[1]	35,575	81,419	35,984	152,978	3,561	156,539
[1]Of which: the allowance was calculated by extent of arrears	1,032 (c)	80,366	-	81,398	-	81,398
Total debts(a)(2)	148,385	81,480	37,807	267,672	11,735	279,407
[2]Of which:						
Debts under restructuring	1,748	-	107	1,855	-	1,855
Other impaired debts	1,694(d)	-	107	1,801	-	1,801
Total impaired debts	3,442	-	214	3,656	-	3,656
Debts in arrears of 90 days or more	62	719	76	857	-	857
Other problem debts	3,091	28	245	3,364	-	3,364
Total impaired debts	6,595	747	535	7,877	-	7,877
Allowance for credit losses for debts[a]:						
Examined on an individual basis	1,954 (d)	13	115	2,082	2	2,084
Examined on a collective basis[3]	353	497	607	1,457	-	1,457
[3]Of which the allowance was calculated by extent of arrears	-	495 (b)	-	495	-	495
Total allowance for credit losses[4]	2,307	510	722	3,539	2	3,541
[4]Of which in respect of impaired debts	633 (d)	-	23	656	-	656

(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 307 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Restated.

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

A. Debts [(a)], credit to the public and balance of allowance for credit losses (cont.)

	31 December 2016 (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	106,782 (d)	45	542(d)	107,369	7,890	115,259
Examined on a collective basis[1]	40,980 (d)	79,086	38,015(d)	158,081	4,148	162,229
[1]Of which: the allowance was calculated by extent of arrears	909(c)	78,656	-	79,565	-	79,565
Total debts(a)[2]	147,762	79,131	38,557	265,450	12,038	277,488
[2]Of which:						
Debts under restructuring	1,971	-	87	2,058	-	2,058
Other impaired debts	1,524	-	71	1,595	-	1,595
Total impaired debts	3,495	-	158	3,653	-	3,653
Debts in arrears of 90 days or more	161	719	123	1,003	-	1,003
Other problem debts	2,634	-	409	3,043	-	3,043
Total impaired debts	6,290	719	690	7,699	-	7,699
Allowance for credit losses for debts[a]:						
Examined on an individual basis	1,855(d)	6	57(d)	1,918	1	1,919
Examined on a collective basis[3]	420(d)	467	732 (d)	1,619	-	1,619
[3]Of which the allowance was calculated by extent of arrears	-	462 (b)	-	462	-	462
Total allowance for credit losses[4]	2,275	473	789	3,537	1	3,538
[4]Of which in respect of impaired debts	671	-	12	683	-	683

(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 294 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Reclassified.

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

B. Change in balance of allowance for credit losses

	For the three months ended 31 March 2017 (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	**2,727**	**473**	**825**	**4,025**	**1**	**4,026**
Expenses (income) in respect of credit losses	**96**	**(2)**	**7**	**101**	**-**	**101**
Accounting write-offs	**(179)**	**(2)**	**(172)**	**(353)**	**-**	**(353)**
Collection of debts written off in previous years	**106**	**-**	**109**	**215**	**-**	**215**
Net accounting write-offs	**(73)**	**(2)**	**(63)**	**(138)**	**-**	**(138)**
Adjustments from translation of financial statements	**(10)**	**1**	**-**	**(9)**	**-**	**(9)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,740**	**470**	**769**	**3,979**	**1**	**3,980**
[1]Of which: in respect of off-balance sheet credit instruments	**476**	**-**	**38**	**514**	**-**	**514**

	For the three months ended 31 March 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 reporting period	2,981 (b)	513	659 (b)	4,153	3	4,156
Expenses in respect of credit losses	(268) (b)	(2)	148 (b)	(122)	(1)	(123)
Accounting write-offs	(192) (a)	(2)	(142)	(336)	-	(336)
Collection of debts written off in previous years	229 (a)	-	90	319	-	319
Net accounting write-offs	37	(2)	(52)	(17)	-	(17)
Adjustments from translation of financial statements	(5) (a)	1	- (a)	(4)	-	(4)
Balance of allowance for credit losses at end of the reporting period[1]	2,745	510	755	4,010	2	4,012
[1]Of which: in respect of off-balance sheet credit instruments	438	-	33	471	-	471

(a) Restated.
(d) Reclassified.

Note 7 – Deposits of the Public

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

	31 March		31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
In Israel			
On demand			
Non-interest bearing	**77,277**	69,624	79,516
Interest bearing	**101,935**	82,158	97,328
Total on demand	**179,212**	151,782	176,844
Fixed term	**137,052**	153,794	143,289
Total deposits in Israel[1]	**316,264**	305,576	320,133
Outside Israel			
On demand			
Non-interest bearing	**9,458**	8,844	10,306
Interest bearing	**4,851**	3,426	4,339
Total on demand	**14,309**	12,270	14,645
Fixed term	**11,090**	12,508	12,076
Of which:non-interest bearing deposits	**31**	16	32
Total deposits outside Israel	**25,399**	24,778	26,721
Total deposits of the public	**341,663**	330,354	346,854
[1]Of which:			
Deposits of private persons	**142,324**	138,638	143,644
Deposits of institutional entities	**56,732**	57,620	55,862
Deposits of corporations and others	**117,208**	109,318	120,627

B. Deposits of the public by size

	31 March		31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Up to 1	**96,553**	95,200	96,368
From 1 to 10	**92,870**	86,700	93,912
From 10 to 100	**60,668**	56,951	60,809
From 100 to 500	**31,930**	34,933	37,271
Above 500	**59,642**	56,570	58,494
Total	**341,663**	330,354	346,854

Note 8 – Employee Rights

A. Composition of benefits

1. Employee benefits

	As at 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**15,996**	16,544	16,948
Fair value of plan assets	**6,419**	6,693	6,819
Excess liabilities over plan assets (included under other liabilities)	**9,577**	9,851	10,129
Long-service (Jubilee) bonus			
Amount of liability	**82**	127	82
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**82**	127	82
Other benefits			
Amount of liability	**562**	664 (b)	559
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**562**	664	559
Total[1]			
Excess liabilities in respect of employee rights over plan assets included under "Other liabilities"	**10,221**	10,642 (b)	10,770
[1]Of which: in respect of employee benefits overseas	**109**	168 (b)	117

(a) December 2016 and thereafter – accumulated Jubilee vacation only.
(b) Restated.

Note 8 – Employee Rights (cont.)

A. Composition of benefits (cont.)

2. Defined benefit pension plan

A. Commitment and state of funding

1. Change in commitment in respect of forecast benefit

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Commitment in respect of forecast benefit at the beginning of the period	**16,948**	15,764	15,764
Service cost	**37**	42	163
Interest cost	**177**	172	687
Deposits of plan participants	**11**	12	48
Actuarial loss (profit)	**(416)**	772	1,174
Changes in foreign currency exchange rates	**(19)**	(17)	(38)
Benefits paid (a)	**(742)**	(205)	(865)
Other	**-**	4	15
Commitment in respect of forecast benefit at the end of the period	**15,996**	16,544	16,948
Commitment in respect of accumulated benefit at the end of the period	**15,029**	15,654	16,011

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

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Fair value of plan assets at the beginning of the period	**6,819**	6,766	6,766
Actual return on plan assets:	**84**	(48)	257
Deposits in the plan by the banking corporation	**28**	32	158
Deposits by plan participants	**11**	12	48
Changes in foreign currency exchange rates	**(16)**	(17)	(37)
Benefits paid (a)	**(507)**	(52)	(449)
Other	**-**	-	76
Fair value of plan assets at the end of the period	**6,419**	6,693	6,819
State of funding - net liability recognized at the end of the period (included in other liabilities)	**9,577**	9,851	10,129

(a) Including non-material amounts for reductions, settlements, special and contractual benefits for dismissals.

Note 8 – Employee Rights (cont'd)

A. Composition of benefits (cont.)

2. Defined benefit pension plan

A. Commitment and state of funding

3. Amounts recognized in the consolidated balance sheet

	As at 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Amounts recognized under other assets	**-**	-	-
Amounts recognized under other liabilities	**9,577**	9,851	10,129
Liability net recognized at the end of the period	**9,577**	9,851	10,129

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

	As at 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Net actuarial loss	**2,747**	3,179	3,241
Closing balance in accumulated other income	**2,747**	3,179	3,241

B. Expense for the period

1. Benefit cost components net recognized in profit and loss

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Service cost	**37**	42	163
Interest cost	**177**	172	687
Forecast return on plan assets	**(92)**	(91)	(373)
Amortization of amounts not recognized - net actuarial loss	**82**	53	310
Total cost of benefit, net	**204**	176	787
Total expense in respect of defined deposit pension plan	**37**	41	158
Total expenses included in salaries and related expenses	**241**	217	945

Note 8 – Employee Rights (cont'd)

A. Composition of benefits (cont.)

2. Defined benefit pension plan (cont'd)

B. Expense for the period (cont'd)

2. Changes in plan assets and commitment for benefit recognized in other comprehensive income (loss) before the tax effect

	For the three months ended 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Net actuarial loss (profit) for the period	**(408)**	911	1,290
Amortization of amounts not recognized - net actuarial profit	**(82)**	(53)	(310)
Changes in foreign currency exchange rates	**(4)**	(8)	(4)
Other including structural change	**-**	-	(64)
Total recognized in other comprehensive income	**(494)**	850	912
Net cost of benefit	**204**	176	787
Total recognized in cost of benefit, net, for the period and in other comprehensive income	**(290)**	1,026	1,699

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 (income) in the statement of profit and loss in 2017 before the tax effect

	For the nine months ending 31 December 2017
	Unaudited
	NIS millions
Net actuarial loss	(190)
Total expected to be amortized from accumulated other comprehensive income	**(190)**

Note 8 – Employee Rights (cont'd)

A. 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 31 December

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

	As at 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	באחוזים	0	0
CPI discount rate	3	2	2
Employee turnover rate	2	2	2
Rate of growth of remuneration	0.1-3.7	0.1-3.7	0.1-3.7

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

	As at 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	באחוזים	0	0
Forecast return on long-term plan assets	2	3	2
Rate of growth of remuneration	6	6	6

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 31 March		As at 31 December	As at 31 March		As at 31 December
	2017	2016	2016	**2017**	2016	2016
	Unaudited					
	NIS millions					
Discount rate	**(2,100)**	(2,228)	(2,191)	**2,622**	2,803	2,745
CPI discount rate	**(61)**	(146)	(130)	**61**	147	131
Employee turnover rate	**216**	250	222	**(235)**	(267)	(241)
Rate of growth in remuneration	**575**	657	663	**(507)**	(581)	(581)

(a) The assumptions relate to Bank figures only.

Note 8 – Employee Rights (cont'd)

A. 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 31 March		As at 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Cash and deposits in banks	**256**	136	279
Shares	**2,434**	2,607	2,401
Government bonds	**1,362**	1,505	1,630
Corporate bonds	**1,927**	2,096	1,940
Other	**440**	349	569
Total	**6,419**	6,693	6,819

B. The fair value of plan assets by type of assets and target for allocation in 2017

	Allocation target	Percentage of plan assets		
		As at 31 March		As at 31 December
	2017	**2017**	2016	2016
	Unaudited			Audited
	Percentage			
Cash and deposits in banks	**2**	**4**	3	4
Shares	**38**	**38**	39	36
Government bonds	**19**	**21**	22	24
Corporate bonds	**31**	**30**	31	28
Other	**10**	**7**	5	8
Total	**100**	**100**	100	100

Note 8 – Employee Rights (cont'd)

A. Composition of benefits (cont.)

4. Plan assets (cont.)

C. Cash flows

1. Deposits

	Forecast (a)	Actual deposits For the three months ended 31 March		For the year ended 31 December
	2017	**2017**	2016	2016
	Unaudited			Audited
	NIS millions			
Deposits	**195**	**39**	44	206

(a) Estimate of deposits that the Bank expects to pay into a defined benefit pension plan during 2017.

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

Year	NIS millions
2017	460
2018	593
2019	627
2020	658
2021	674
2022-2026	4,077
2027 and thereafter	10,935
Total	18,024

(a) In discounted values.

Note 9A – Capital

Changes in the Bank's capital

Pursuant to the Bank's Remuneration Policy, the term set in the remuneration policy were met for the vesting into shares of the third and last 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 (henceforth: **"Office Holders in the Bank"**) as part of the approval of the performance-based annual bonus, in respect of half of the bonus for the year 2013) (henceforth: **"2014 PSU units"**) and for the vesting into shares of the first third of the PSU units that were allocated to the office-holders in the Bank as part of the approval of the performance-based annual bonus, in respect of half of the bonus for the year 2015) (henceforth: **"2016 PSU units"**), and accordingly the last third of the 2014 PSU units and the first third of the 2016 PSU units vested into shares. Accordingly, on 3 April 2017, office holders in the Bank were allocated shares according to the number of 2014 PSU units and 2016 PSU units that vested on that date. In addition, the terms were met for the vesting of the third and last third of the RSU units (allocated in 2013 to two office holders in the Bank) (henceforth: **"the RSU units"**) and so on 14 April 2017, 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 25A to the 2016 annual financial statements.

Pursuant to that set forth in the Remuneration Policy, the shares allocated due to the vesting of the 2014 PSU units, 2016 PSU units and RSU units mentioned above, were deposited with the Remuneration Plan Trustee, ESOP Management and Trust Services Ltd. (henceforth **"the Plan Trustee"**).

The shares allocated in respect of the vesting of 2014 PSU units and RSU units as detailed above, are not blocked, and the first of the three tranches of the shares allocated in respect of the vesting of the 2016 PSU units, are blocked for a period of one more year until the end of two years from the date of allocation of the 2016 PSU units.

Pursuant to the provisions of the Bank's Remuneration Policy, on 6 April 2017, the Bank issued 578,969 new PSU units (henceforth: "**2017 PSU units**"), in the name of the Trustee, for other office holders in the Bank in respect of part of performance-contingent bonus for the year 2016. If the terms are met for exercising the said 2017 PSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering published by the Bank on 30 March 2017 (henceforth: **"the Private Offering Report"**), the said PSU units will vest into 578,969 ordinary shares of NIS 1 par value each of the Bank.

The vesting of the 2017 PSU units on each of the vesting dates will be contingent on the Bank meeting the capital adequacy ratio required pursuant to the directives of Supervisor of Banks in accordance with the latest financial statements published close to each of the vesting dates. If the Bank did not meet the aforesaid ratio, the vesting of the relevant share will be postponed to the next date in which the Bank meets the required capital adequacy ratio, as previously mentioned, in accordance with the financial statement that will be published.

For further information, see Note 25A to the 2016 annual financial statements.

Extension of the validity of the Shelf Prospectus

On 20 April 2017, the Israel Securities Authority approved the Bank's request to extend the period of the offering of securities pursuant to the Bank's Shelf Prospectus published by the Bank on 27 May 2015 for a further period of a year, until 27 May 2018.

Note 9A – Capital (Cont'd)

Dividend Distribution Policy

On 29 March, 2017, the Board of Directors of the Bank approved a dividend distribution policy, with effect from the date of publication of the financial statements for the first quarter of 2017. Pursuant to the dividend policy, each quarter, the Bank will distribute 20% of the net profit of the Bank according to the Bank's financial statements, for the previous quarter, and subject to, among other things, the Bank being in compliance with its capital adequacy targets, even after the dividend distribution. The actual dividend distribution is subject to the specific resolutions of the Board of Directors prior to each distribution, and subject to the provisions of the law which apply to the distribution of dividends, including the provisions of the Company Law, and directives of the Bank of Israel.

Pursuant to the said policy, on 25 May 2017, the Board of Directors approved the distribution of a dividend in the sum of about NIS 124 million, representing 8.16752 agorot for each share of NIS 1 nominal value. The Board of Directors fixed the date of 13 June 2017 as the determining date regarding payment of the dividend and 22 June 2017 as the date of payment.

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 2017, the rate of deductions from regulatory capital is 80% and the ceiling for eligible instruments as regulatory capital is 50%.

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. Pursuant to the minimum formula in the directive, risk assets are calculated as 20% of the trading exposures with the Tel Aviv Stock Exchange, so that the risk weighting of 2% is not actually applied.
2. In addition, directives 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.

Note 9B –Capital Adequacy, Leverage and Liquidity (Cont'd)

3. 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 1,250%.

The aforesaid in this circular applies from 1 July 2016, whereas until 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 of implementation of the protection on Leumi as at 31 March 2017 is not material. If the Tel Aviv Stock Exchange will not be recognized as a qualifying central counterparty, the estimated increase in total risk assets at 31 March 2017 is NIS 4.1 billion, a decrease of 0.15% in the capital adequacy ratio of Tier 1 shareholders' equity.

Capital components subject to volatility

The Standards regarding employee rights which adopted for the first time in January 2015, is a factor expected to have a most significant impact on Leumi's Tier 1 shareholders' equity, mainly due to the fact that the liability is measured in accordance with market interest rates at historically low levels and because of the high volatility that measurement of this kind brings with it.

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 quarters ended at the reporting date. The change will apply from the financial reports as at 30 June 2016 until 31 December 2020 (inclusive). The change in the calculation methodology significantly moderates 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.

For regulatory capital purposes, the pension liability amounts to NIS 16,036 million and Tier 1 shareholders' equity to NIS 32,965 million, compared with the pension liability in the books of NIS 16,558 million and Tier 1 shareholders' equity of NIS 31,377 million.

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

	31 March 2017	31 March 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after regulatory adjustments and deductions	**32,965** (b)	29,719	32,586 (b)
Tier 2 capital, after deductions	**11,369**	12,890	11,850
Total capital	**44,334**	42,609	44,436
Weighted balances of risk assets			
Credit risk	**272,108** (b)	272,523	266,534 (b)
Market risk	**6,141**	5,793	4,788
Operational risk	**20,862**	20,100	20,843
Total weighted balances of risk assets	**299,111**	298,416	292,165
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	**11.02%**	9.96%	11.15%
Ratio of total capital to risk components	**14.82%**	14.28%	15.21%
Minimum Tier 1 capital ratio required by the Supervisor of Banks (a)	**10.26%**	9.14%	9.24%
Minimum total capital ratio required by the Supervisor of Banks (a)	**13.76%**	12.64%	12.74%
B. Principal subsidiary companies			
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	**15.76%**	16.75%	16.81%
Ratio of total capital to risk components	**16.76%**	17.68%	17.79%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	**8.00%**	9.00%	8.00%
Minimum total capital ratio required by the Supervisor of Banks	**11.50%**	12.50%	11.50%
Bank Leumi USA			
Ratio of Tier 1 capital to risk components	**11.57%**	12.45%	12.21%
Ratio of total capital to risk components	**13.99%**	15.21%	14.75%
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 10.26% and 13.76%, 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 streamlining plan), which are gradually decreasing until 30 June 2021. For further information regarding the impact of the transitional provisions and the adjustments for the streamlining plan, see section D below. From the total weighted balances of risk assets, NIS 92 million were reduced due to adjustments in respect of the streamlining plan (31 December 2016 – NIS 116 million).

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

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

	31 March 2017	31 March 2016	31 December 2015
	(Unaudited)		(Audited)
	(NIS millions)		
1. Tier 1 shareholders' equity			
Equity attributed to shareholders of the Bank	**32,255**	29,313	31,347
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders' equity - minority interests	**212**	224	245
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders' equity - in respect of employee benefits	**367**	833	868
Adjustments in respect of the transition from the acounting curve to the 8-quarter curve (a)	**77**	-	137
Tier 1 shareholders' equity before regulatory adjustments and deductions	**32,911**	30,370	32,597
Regulatory adjustments and deductions:			
Goodwill and intangible assets	**(258)**	(273)	(265)
Deferred tax assets	**(143)**	(365)	(120)
Regulatory adjustments and other deductions - Tier 1 shareholders' equity	**(26)**	(13)	(19)
Total regulatory adjustments and deductions - Tier 1 shareholders' equity	**(427)**	(651)	(404)
Total adjustments for the efficiency plan	**481**	-	393
Total Tier 1 shareholders' equity, after regulatory adjustments and deductions	**32,965**	29,719	32,586
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**8,227**	9,671	8,662
Tier 2 capital: provisions before deductions	**3,142**	3,219	3,188
Total Tier 2 capital before deductions	**11,369**	12,890	11,850
Deductions:			
Total deductions - Tier 2 capital	**-**	-	-
Total Tier 2 capital	**11,369**	12,890	11,850
Total overall capital	**44,334**	42,609	44,436

(a) Pursuant to a specific approval of the Banking Supervision Department.

Note: Total overall capital is calculated in accordance with Proper Conduct of Banking Business Directive No. 201-211, 299 – "Capital Measurement and Adequacy", applicable from 1 January 2014.

D. Effect of the transitional provisions and adjustments in respect of the streamlining plan on Tier 1 shareholders' equity ratio

	31 March 2017	31 March 2016	31 December 2016
	Unaudited		Audited
	Percentages		
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 streamlining plan (a)	**10.70%**	9.53%	10.66%
Effect of the transitional provisions	**0.16%**	0.43%	0.35%
Ratio of Tier 1 shareholders' equity to risk components before the effect of adjustments in respect of the efficiency plan	**10.86%**	9.96%	11.01%
Adjustments in respect of the efficiency plan	**0.16%**	-	0.14%
Ratio of Tier 1 shareholders' equity to risk components	**11.02%**	9.96%	11.15%

(a) Including the effect of adoption of US GAAP on employee rights.

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.

	31 March 2017	31 March 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
A. In consolidated terms			
Tier 1 capital (a)	**32,965**	29,719	32,586
Total exposures	**481,410**	467,663	481,384
Leverage ratio			
Leverage ratio	**6.85%**	6.35%	6.77%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%	6.00%
B. Significant subsidiary companies			
Leumi Card Ltd.			
Leverage ratio	**10.95%**	11.52%	11.73%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%	5.00%
Bank Leumi USA			
Leverage ratio required by the local authorities	**9.22%**	10.31%	8.94%

(a) 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". Th effect of the relief in equity in respect of the streamlining plan on the leverage ratio amounted to about 0.10% at 31 March 2017 and 0.08% at 31 December 2016. Furthermore, in calculating the leverage ratio, adjustments are taken into account from implementing a discount rate of interest calculated over a moving average of market yields for the period of eight quarters ending on the reporting date, in connection with certain actuarial liabilities.

F. 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.)

F. Liquidity coverage ratio pursuant to the directive of the Supervisor of Banks (Cont'd)

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 31 March		For the year ended 31 December
	2017	2016	2016
	Unaudited		Audited
	Percentage		
A. In consolidated terms			
Liquidity cover ratio	**131%**	125%	132%
Minimum liquidity cover ratio required by the Supervisor of Banks	**100%**	80%	80%
B. In terms of the banking corporation			
Liquidity cover ratio	**131%**	124%	130%
Minimum liquidity cover ratio required by the Supervisor of Banks	**100%**	80%	80%

Leumi Card and Bank Leumi USA have no requirements for a liquidity cover ratio.

Note 10 - Contingent Liabilities and Special Commitments

A. Contingent liabilities and special commitments

	31 March 2017	31 March 2016	31 December 2016
	Unaudited	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	**193**	274	301
Second year	**268**	205	203
Third year	**183**	182	169
Fourth year	**146**	154	148
Fifth year	**110**	121	117
After five years	**1,140**	1,206	1,160
Total long-term rental contracts	**2,040**	2,142	2,098
(2) Commitments to purchase securities	**792**	709	920
(3) Commitments to invest in buildings, equipment and others	**79**	77 (a)	38

(a) Restated.

	31 March 2017	31 March 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
(4) Credit sale activity			
Book value of credit sold	**-**	-	2,663
Proceeds received in cash	**-**	-	2,723
Deferred profit	**-**	-	(16)

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 26 to the annual financial statements of the Bank at 31 December 2016, information was included regarding all 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, if submitted, and changes that occurred regarding material claims submitted in previous reporting periods, and does not include information on claims reported in Note 26 of the annual report, and in which there was no change.

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.

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 40 million.

Note 10 - Contingent Liabilities and Special Commitments (cont'd)

1. At the date of publication of the financial statements, there were no material changes with reference to that detailed in Note 26 in the Annual Report, except as set out below:

   1.1 On 9 March 2014, a petition was filed to approve a class action against the Bank without specifying the amount claimed. According to the plaintiff, the Bank collects money from customers unlawfully in two cases. The first is when the Bank allows customers to exceed the credit limit and debits customer accounts with a fee in the amount of NIS 53 in respect of delivering a warning letter of the deviation from the credit limit. Second, "non-approved" deviations from the credit limit are merged into the excess debit balance in the account resulting in the charging of the maximum rate of interest. On 14 May 2017, the Court approved a settlement arrangement in these proceedings, and thus the action was ended.

   1.2 On 17 August 2016, a petition was filed for approval of a class action against the Bank, and against nine other banks, for a total amount of about NIS 1 billion (principal) at the very least. The petitioners claim that the banks charge fees to persons not classified as individuals or small businesses that are not included in the statutory binding price list, pursuant to the Banking Law (Service to the Customer), 5741-1981 or not for the amount appearing in it, allegedly unlawfully.

   1.3 On 8 December, 2016, a petition was filed for the approval of a class action against the Bank and other banks. The petitioner claimed that the banks charge minimum fees for a transfer of foreign currency by size, and not only one minimum fee, which according to the applicant is required by the banking regulations, and that this common violation of all the respondent banks is actually a restrictive practice contrary to Antitrust Law. The amount of the alleged damage was estimated by the petitioner, for all the respondents together, in the amount of about NIS 500 million.

   1.4 On 15 May 2017, a petition was filed for approval of a class action against the Bank (in conjunction with similar claims proceeding against other banks, and a claim on identical grounds filed against the Bank on 12 February 2017 that is pending). The plaintiffs claim that the Bank does not classify businesses as "small businesses", and as a result it charges them, unlawfully, with commissions not in accordance with the price list applying to a small business. The amount of damage claimed is estimated by the plaintiff, for all the plaintiffs together, is about NIS 462 million.

2. In addition, there are legal claims pending against the Bank, including petitions for the approval of class actions, which the claimed amount in them is material. 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.

   2.1 On 29 September 2016, a petition for approval of a class action was filed against the Bank for about NIS 500 million for damages allegedly 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.

   2.2 On 4 January, 2017, a petition was filed for the approval of a class action against the Bank and other banks. According to the petitioners, when a file is opened by the Execution and Collection Authority, the debt is charged with compound interest at a frequency above that permitted by the agreement between the customer and the Bank and / or by the ruling under which the file is opened by the Execution and Collection Authority and / or by law. The group damage is estimated at about NIS 339 million from all the respondents, including approximately NIS 161 million from the Bank.

Note 10 - Contingent Liabilities and Special Commitments (cont'd)

2.3 On 22 January, 2017, the Bank received a petition for the approval of a class action against the Bank. The claim alleges that the Bank apparently carries out conversion of credit balances in foreign currency deposited to the credit of accounts in Israeli currency of customers, even if the customers did not ask for this service. According to the petitioner, the damage allegedly caused to customers as a result is the conversion fee and the difference between conversion at the representative exchange rate and conversion at the rate at which the conversion was carried out in practice, which is lower. The petitioner claims that the amount of personal damage incurred by him is about NIS 38, and the damage to the group is estimated in millions of shekels, without details.

2.4 On 29 March, 2017 a petition was filed for the approval of a class action against the Bank (and corresponding claims against other banks as well). The petitioner claims that the Bank is not entitled to charge "correspondent commission" when executing a transfer of foreign currency from a customer account to a bank account overseas, and alternatively, the petitioner claims that the Bank is entitled to charge a correspondent commission only according to the real expense it had (the actual amount the Bank paid the correspondent). The petitioner claims personal damages of USD 30 and the amount of the group damage cannot be estimated.

C. Credit cards

On 7 March 2012, the Antitrust Tribunal gave its judicial approval to an agreement submitted by leumi Card, Isracard Ltd., CAL and the controlling banks in each of these companies with the Antitrust Commissioner regarding the rate of the issuer's commissions (cross-commission), which will exist between clearers and issuers of Visa and Mastercard cards. According to the approved agreement the cross-commission decreased gradually to 0.7% from July 2014, according to the outline plan for the reduction of cross-commission set forth in the judgment. The arrangement between the Commissioner and the credit card companies is in force until the end of 2018. As of the date of the publication of the financial statements, the rate of the cross-commission is being reexamined.

Regarding an immediate debit card, the Banking Order (Customer Service) (Supervision of service given by an issuer to a clearer in connection with cross-clearing of immediate debit transactions) (Temporary Order), 2015, was published on 26 August, 2015. In the Order, the Governor of the Bank of Israel declared that service that the issuer gives the clearer regarding cross-clearing of immediate debit transactions, is a service subject to supervision regarding the fee charged in its connection, and determined that the fee will stand at 0.3% of the transaction amount. The validity of the Order is for the year starting 1 April, 2016 until 31 March, 2017. On 1 April informed the Antitrust Authority to the credit card companies that due to the expiry of the Order on 31 March, 2017 and the |Governor's intention to renew it for an additional period soon, the Antitrust Commissioner shall not take enforcement measures by virtue of the Antitrust Law 1988 for activity according to the provisions of the order. The validity of the said determination is until 15 June, 2017 unless the Governor of the Bank of Israel shall issue an order on the subject of supervision over a service provided by an issuer to a clearer before the end of the period. As of the date of the publication of the financial statements of the Bank, the Governor did not publish an announcement regarding the extension of the validity of the order for an additional period.

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

A. Scope of activity on consolidated basis

	31 March 2017 (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	-	2,682	-	-	-	2,682
Total	-	2,682	-	-	-	2,682
Of which: interest rate swap contracts in which the banking institution agreed to rate of interest	-	2,682	-	-	-	2,682
b) ALM derivatives (a)(b)						
Futures contracts	-	47,773	77	61,143	574	109,567
Forward contracts	12,468	3,450	168,918	486	7	185,329
Exchange-traded options						
Options written	-	680	17,412	13,369	24	31,485
Options purchased	-	680	17,025	13,438	24	31,167
Other options						
Options written	-	7,406	24,046	2,932	135	34,519
Options purchased	-	5,437	23,845	2,909	161	32,352
Swaps	572	265,614	26,712	28,527	193	321,618
Total	13,040	331,040	278,035	122,804	1,118	746,037
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	145,553	-	-	-	145,553
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	10	10
Spot foreign exchange contracts	-	-	10,605	-	-	10,605
Total	-	-	10,605	-	10	10,615
Grand total	13,040	333,722	288,640	122,804	1,128	759,334

(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)

	31 March 2017 (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	-	65	-	-	-	65
Gross negative fair value	-	13	-	-	-	13
b) ALM derivatives (a)(b)						
Gross positive fair value	343	5,246	4,094	1,270	20	10,973
Gross negative fair value	413	4,815	4,828	1,242	20	11,318
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)	343	5,311	4,094	1,270	20	11,038
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	343	5,311	4,094	1,270	20	11,038
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	48	27	145	219	3	442
Gross negative fair value (c)	413	4,828	4,828	1,242	20	11,331
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative	413	4,828	4,828	1,242	20	11,331
liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	-	54	364	134	3	555

(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.
(c) Of which: positive gross fair value of assets in respect of embedded derivative instruments in the amount of NIS 6 million (negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 59 million).

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

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

	31 March 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	NIS millions					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Swaps	-	2,343	-	-	-	2,343
Total	-	2,343	-	-	-	2,343
Of which: interest rate swap contracts in which the banking institution agreed to rate of interest	-	2,343	-	-	-	2,343
b) ALM derivatives (a)(b)						
Futures contracts	-	28,795	18	48,636	223	77,672
Forward contracts	12,154	14,200	190,277	325	15	216,971
Exchange-traded options						
Options written	-	1,289	17,010	11,033	143	29,475
Options purchased	-	1,289	17,529	11,033	143	29,994
Other options						
Options written	-	11,575	16,832	3,393	128	31,928
Options purchased	-	6,791	16,880	3,405	128	27,204
Swaps	587	261,936	27,740	26,745	380	317,388
Total	12,741	325,875	286,286	104,570	1,160	730,632
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	138,792	-	-	-	138,792
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	30	30
Spot foreign exchange contracts	-	-	23,296	-	-	23,296
Total	-	-	23,296	-	30	23,326
Grand total	12,741	328,218	309,582	104,570	1,190	756,301

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities 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)

	31 March 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross negative fair value	-	180	-	-	-	180
b) ALM derivatives (a)(b)						
Gross positive fair value	379	7,163	3,997	1,576	38	13,153
Gross negative fair value	439	6,935	4,880	1,565	37	13,856
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
ıg corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	379	7,163	3,997	1,576	38	13,153
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	379	7,163	3,997	1,576	38	13,153
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	40	17	177	-	34	268
Gross negative fair value (c)	439	7,115	4,880	1,565	38	14,037
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative	439	7,115	4,880	1,565	38	14,037
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	1	7	465	-	3	476

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities management not designated for hedging.
(c) Of which: positive gross fair value of assets in respect of embedded derivative instruments in the amount of NIS 3 million (negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 41 million).

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

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

	31 December 2016 (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	-	3,480	-	-	-	3,480
Total	-	3,480	-	-	-	3,480
Of which: interest rate swap contracts in which the banking institution agreed to rate of interest	-	3,480	-	-	-	3,480
b) ALM derivatives (a)(b)						
Futures contracts	-	40,972	183	61,988	210	103,353
Forward contracts	12,187	4,850	189,374	407	11	206,829
Exchange-traded options						
Options written	-	299	15,131	9,719	67	25,216
Options purchased	-	299	14,556	9,719	67	24,641
Other options						
Options written	-	7,210	12,553	2,530	56	22,349
Options purchased	-	4,186	12,833	2,572	189	19,780
Swaps	572	265,043	26,796	29,441	253	322,105
Total	12,759	322,859	271,426	116,376	853	724,273
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	140,716	-	-	-	140,716
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	-	-	8,667	-	-	8,667
Total	-	-	8,667	-	20	8,687
Grand total	12,759	326,339	280,093	116,376	873	736,440

(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.

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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 2016 (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	-	60	-	-	-	60
Gross negative fair value	-	108	-	-	-	108
b) ALM derivatives (a)(b)						
Gross positive fair value	339	5,590	3,075	1,571	24	10,599
Gross negative fair value	400	5,179	3,477	1,544	20	10,620
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)	339	5,650	3,075	1,571	24	10,659
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	339	5,650	3,075	1,571	24	10,659
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	41	394	53	-	-	488
Gross negative fair value (c)	400	5,287	3,477	1,544	20	10,728
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	400	5,287	3,477	1,544	20	10,728
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	-	216	283	3	-	502

(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.
(c) Of which: positive gross fair value of assets in respect of embedded derivative instruments in the amount of NIS 5 million (negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 51 million).

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

B. Credit risk in respect of derivative instruments by counterparty to the contract

	31 March 2017 (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)	**164**	**6,996**	**1,734**	**86**	**2,058**	**11,038**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**4,625**	**1,585**	**1**	**666**	**6,877**
Mitigation of credit risk in respect of cash collateral received	**-**	**1,997**	**145**	**85**	**50**	**2,277**
Net amount of assets in respect of derivative instruments	**164**	**374**	**4**	**-**	**1,342**	**1,884**
Off-balance sheet credit risk in respect of derivative instruments (d)	**-**	**5,707**	**1,378**	**73**	**4,441**	**11,599**
Mitigation of off-balance sheet credit risk	**-**	**1,521**	**747**	**-**	**1,405**	**3,673**
t credit risk in respect of derivative instruments (e)	**-**	**4,186**	**631**	**73**	**3,036**	**7,926**
Total credit risk in respect of derivative instruments	**164**	**4,560**	**635**	**73**	**4,378**	**9,810**
iabilities in respect of derivative instruments (a) (c)	**183**	**5,282**	**1,700**	**1**	**4,165**	**11,331**
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	**-**	**4,625**	**1,585**	**1**	**666**	**6,877**
Cash collateral pledged	**-**	**327**	**86**	**-**	**1,829**	**2,242**
Net amount of liabilities in respect of derivative instruments	**183**	**330**	**29**	**-**	**1,670**	**2,212**

See notes on page 147.

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

B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)

	31 March 2016 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Book balance of assets in respect of derivative instruments (a) (b)	188	8,383	2,260	27	2,295	13,153
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	6,432	1,985	27	839	9,283
Mitigation of credit risk in respect of cash collateral received	-	829	229	-	5	1,063
Net amount of assets in respect of derivative instruments	188	1,122	46	-	1,451	2,807
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,513	1,155	68	4,500	9,236
Mitigation of off-balance sheet credit risk	-	1,710	592	41	1,741	4,084
t credit risk in respect of derivative instruments (e)	-	1,803	563	27	2,759	5,152
Total credit risk in respect of derivative instruments	188	2,925	609	27	4,210	7,959
Book balance of liabilities in respect of derivative instruments (a) (c)	208	7,178	2,240	40	4,371	14,037
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	6,432	1,985	27	839	9,283
Cash collateral pledged	-	458	168	12	757	1,395
Net amount of liabilities in respect of derivative instruments	208	288	87	1	2,775	3,359

See notes on 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 2016 (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)	121	6,737	2,074	11	1,716	10,659
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	5,264	1,365	11	767	7,407
Mitigation of credit risk in respect of cash collateral received	-	1,305	438	-	55	1,798
Net amount of assets in respect of derivative instruments	121	168	271	-	894	1,454
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,923	1,277	61	4,550	9,811
Mitigation of off-balance sheet credit risk	-	2,153	484	37	1,788	4,462
t credit risk in respect of derivative instruments (e)	-	1,770	793	24	2,762	5,349
Total credit risk in respect of derivative instruments	121	1,938	1,064	24	3,656	6,803
Book balance of liabilities in respect of derivative instruments (a) (c)	132	5,921	1,692	31	2,952	10,728
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	5,264	1,365	11	767	7,407
Cash collateral pledged	-	509	53	7	963	1,532
Net amount of liabilities in respect of derivative instruments	132	148	274	13	1,222	1,789

(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 11,032 million (at 31 March 2016 - NIS 13,150 million, at 31 December 2016 – NIS 10,654 million).

(c) Of which a book balance of standalone derivative instruments in the amount of NIS 11,272 million (at 31 March 2016 – NIS 13,996 million, at 31 December 2016 – NIS 10,677 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.

(e) The difference, if positive between the total of all the amounts in respect of derivative instruments (including derivatives with a negative fair value) that were included in the indebtedness of the borrower, as calculated for purposes of a single borrower indebtedness limitation, before credit risk mitigation, and the book balance of assets in respect of derivative instruments of the borrower.

Note:
In the three-month period ended 31 March 2017, and in the corresponding period last year, and in December 2016, no credit losses were recognized in respect of derivative instruments.

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

C. Repayment Dates – Nominal Amounts: Balances

	31 March 2017 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	**1,055**	**3,389**	**6,181**	**2,415**	**13,040**
Other	**50,250**	**66,066**	**128,575**	**88,831**	**333,722**
Foreign currency contracts	**167,858**	**88,479**	**26,367**	**5,936**	**288,640**
Contracts in respect of shares	**95,830**	**25,174**	**1,796**	**4**	**122,804**
Commodities and other contracts	**266**	**718**	**144**	**-**	**1,128**
Total	**315,259**	**183,826**	**163,063**	**97,186**	**759,334**
Total 31 March 2016 (Unaudited)	301,164	190,426	176,798	87,913	756,301
Total 31 December 2016 (Audited)	301,486	188,661	153,882	92,411	736,440

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 regarding the reporting requirement on regulatory operating segments.

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

Description of the main operating segments prescribed by the Bank of Israel directives:

1. Households segment - private individuals, except customers included in Private Banking.
2. Private banking segment - 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 - businesses whose activity turnover (annual total sales or annual total income) is less than NIS 10 million.
4. Small business segment - businesses whose activity turnover (annual total sales or annual total income) is greater than or equal to NIS 10 million and less than NIS 50 million.
5. Mid-sized business segment - businesses whose activity turnover (annual total sales or annual total income) is greater than or equal to NIS 50 million and less than NIS 250 million.
6. Large businesses segment - businesses whose activity turnover is greater than or equal to NIS 250 million.
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 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.
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.

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

Classification of customers

According to the circular, the classification of customers into the operating segments will be based on the turnover of their activity or their characteristics (private customers and other individuals). When a banking corporation has no information regarding the total income of business customers who have no liability towards the banking corporation (including credit lines, etc.), the banking corporation may classify them into the relevant regulatory segment according to their total financial assets after multiplying them by a factor of 10. Furthermore, when the Bank believes that the total income does not represent the volume of activity of the customer, the customer will be classified as follows: a customer whose indebtedness is less than NIS 100 million, according to the total assets in the business balance sheet, as stated in the FAQ file, and a customer whose indebtedness exceeds NIS 100 million will be classified into the large business segment.
During the period, actions were taken to complete information that is missing mainly regarding the turnover of business customers. In cases where the information has not yet been completed, the customers were classified according to the estimates and other information that the Bank has. The Bank is working to complete the information and improve the data.

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

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

	For the three months ended 31 March 2017												
	Activity in Israel												
	Households												
	Total	Of which: houing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Unaudited												
	NIS millions												
Interest income from outside entities	810	377	66	1	495	170	367	7	192	-	2,042	277	2,319
Interest expense to outside entities	56	-	-	5	3	18	36	90	206	-	414	32	446
Interest income (expenses), net:													
From outside entities	754	377	66	(4)	492	152	331	(83)	(14)	-	1,628	245	1,873
Intersegmental	(98)	(179)	-	23	(45)	3	(53)	99	78	1	8	(8)	-
Total interest income (expenses)	656	198	66	19	447	155	278	16	64	1	1,636	237	1,873
Total non-interest income (expenses)	430	9	220	44	184	79	171	44	260	15	1,227	60	1,287
Total income (expenses)	1,086	207	286	63	631	234	449	60	324	16	2,863	297	3,160
Expenses (income) in respect of credit losses	21	(1)	13	1	86	(6)	5	-	(10)	(3)	94	7	101
Operating and other expenses:													
To outside entities	939	70	172	31	317	112	127	73	31	220	1,850	200	2,050
Intersegmental	8	-	8	-	-	-	-	-	(8)	-	-	-	-
Total operating and other expenses	947	70	180	31	317	112	127	73	23	220	1,850	200	2,050
Profit (loss) before taxes	118	138	93	31	228	128	317	(13)	311	(201)	919	90	1,009
Provision for (benefit from) taxes on the profit	34	48	25	11	80	46	110	(4)	118	(35)	360	28	388
Profit (loss) after taxes	84	90	68	20	148	82	207	(9)	193	(166)	559	62	621
Share of the banking corporation in profits of companies included on equity basis	-	-	-	-	-	-	-	-	10	-	10	-	10
Net profit (loss) before attribution to non-controlling interests	84	90	68	20	148	82	207	(9)	203	(166)	569	62	631
Net profit (loss) attributed to non-controlling interests	10	-	10	-	1	-	1	-	-	(3)	9	-	9
Net profit (loss) attributed to shareholders of the banking corporation	74	90	58	20	147	82	206	(9)	203	(163)	560	62	622
Average balance of assets (a)	110,632	71,093	11,261	472	50,691	23,551	52,064	2,342	147,810	9,441	397,003	38,142	435,145
Of which: Investments in companies included on equity basis (a	-	-	-	-	-	-	-	-	907	-	907	-	907
Average balance of credit to the public (a)	110,543	71,092	11,248	463	50,683	24,078	53,438	2,354	-	-	241,559	23,946	265,505
Balance of credit to the public at the end of the reporting period	111,769	72,002	11,979	526	52,231	24,216	53,803	2,292	-	-	244,837	23,335	268,172
Balance of impaired debts	122	-	9	-	467	361	1,854	-	-	-	2,804	637	3,441
Balance of debts in arrears of more than 90 days	784	698	-	-	73	1	27	-	-	-	885	50	935
Average balance of liabilities (a)	113,241	-	89	29,763	41,844	32,289	46,962	57,166	42,658	11,779	375,702	27,725	403,427
Of which: Average balance of deposits of the public (a)	113,183	-	65	29,667	38,567	31,746	46,928	54,872	-	-	314,963	26,731	341,694
Balance of deposits of the public at the end of the reporting peri	113,955	-	93	29,447	39,356	32,270	44,504	56,732	-	-	316,264	25,399	341,663
Average balance of risk assets (a) (b)	85,810	54,512	10,260	893	40,876	29,965	67,464	1,460	17,218	17,002	260,688	31,477	292,165
Balance of risk assets at the end of the reporting period (b)	86,106	54,700	10,295	828	43,289	29,754	67,737	1,814	21,511	17,201	268,240	30,871	299,111
Average balance of assets under management (a) (c)	77,808	-	-	49,202	28,280	18,660	75,928	526,813	34,413	-	811,104	19,244	830,348
Distribution of interest income (expenses), net:													
Margin on credit granting activity	596	198	67	1	428	139	264	4	442	1	1,875	229	2,104
Margin on deposit taking activity	60	-	(1)	18	19	16	14	11	(383)	-	(245)	(33)	(278)
Other	-	-	-	-	-	-	-	1	5	-	6	41	47
Total interest income (expense), net	656	198	66	19	447	155	278	16	64	1	1,636	237	1,873

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

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

(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.

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

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

	For the three months ended 31 March 2016 (d)												
	Activity in Israel												
	Households												
	Total	Of which: houing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	NIS millions												
Interest income from outside entities	600	178	60	2	428	155	301	5	176	-	1,667	258	1,925
Interest expense to outside entities	17	-	-	-	14	12	33	56	105	-	237	33	270
Interest income, net													
From outside entities	583	178	60	2	414	143	268	(51)	71	-	1,430	225	1,655
Intersegmental	34	(5)	(1)	17	(19)	(1)	(16)	62	(70)	1	8	(8)	-
Total interest income (expenses), net	617	173	59	19	395	142	252	11	1	1	1,438	217	1,655
Total non-interest income	420	11	207	40	171	78	162	43	22	7	943	89	1,032
Total income	1,037	184	266	59	566	220	414	54	23	8	2,381	306	2,687
Expenses (income) in respect of credit losses	96	-	-	1	56	(1)	(257)	7	(19)	(6)	(123)	-	(123)
Operating and other expenses (income):													
To outside entities	927	67	183	33	302	121	162	63	32	141	1,781	209	1,990
Intersegmental	4	-	4	-	-	-	-	-	(4)	-	-	-	-
Total operating and other expenses	931	67	187	33	302	121	162	63	28	141	1,781	209	1,990
Profit (loss) before taxes	10	117	79	25	208	100	509	(16)	14	(127)	723	97	820
Provision for (benefit from) taxes on the profit	(5)	41	21	9	75	36	182	(6)	16	46	353	18	371
Profit (loss) after taxes	15	76	58	16	133	64	327	(10)	(2)	(173)	370	79	449
Share of the banking corporation in profits (losses) of companies included on equity basis	-	-	-	-	-	-	-	-	19	-	19	-	19
Net profit (loss) before attribution to non-controlling interests	15	76	58	16	133	64	327	(10)	17	(173)	389	79	468
Net profit (loss) attributed to non-controlling interests	9	-	9	-	1	-	-	-	-	(1)	9	-	9
Net profit (loss) attributed to shareholders of the banking corporation	6	76	49	16	132	64	327	(10)	17	(172)	380	79	459
Average balance of assets (a)	115,493	76,011	10,441	513	46,198	22,837	57,846	759	134,748	9,474	387,868	35,122	422,990
Of which: Investments in companies included on equity basis (a	-	-	-	-	-	-	-	-	914	-	914	-	914
Average balance of credit to the public (a)	115,377	76,012	10,430	505	46,189	22,847	58,887	760	-	-	244,565	23,788	268,353
Balance of credit to the public at the end of the reporting period	113,933	75,552	10,513	587	47,141	23,549	59,088	928	-	-	245,226	22,446	267,672
Balance of impaired debts	170	-	14	-	720	643	1,333	48	-	-	2,914	742	3,656
Balance of debts in arrears of more than 90 days	807	716	-	-	32	-	11	-	-	-	850	7	857
Average balance of liabilities (a)	111,872	-	159	29,343	34,986	31,135	51,495	55,307	41,829	10,278	366,245	28,214	394,459
Of which: Average balance of deposits of the public (a)	111,419	-	63	29,248	31,866	30,084	49,131	52,904	-	-	304,652	26,563	331,215
Balance of deposits of the public at the end of the reporting peri	111,381	-	78	28,853	32,276	30,467	44,979	57,620	-	-	305,576	24,778	330,354
Average balance of risk assets (a) (b)	84,820	54,174	9,211	884	44,309	32,554	71,319	1,598	21,066	14,623	271,173	31,460	302,633
Balance of risk assets at the end of the reporting period (b)	85,306	54,484	9,264	902	42,425	31,714	69,696	1,058	21,542	16,171	268,814	29,602	298,416
Average balance of assets under management (a) (c)	78,669	-	-	50,526	26,165	20,007	69,381	489,129	38,055	-	771,932	19,911	791,843
Distribution of interest income (expenses), net:													
Margin on credit granting activity	563	173	59	1	380	133	241	2	186	-	1,506	233	1,739
Margin on deposit taking activity	55	-	-	18	14	9	11	8	(265)	1	(149)	(27)	(176)
Other	(1)	-	-	-	1	-	-	1	80	-	81	11	92
Total interest income (expenses), net	617	173	59	19	395	142	252	11	1	1	1,438	217	1,655

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

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

(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.
(d) Restated.

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

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

For the year ended 31 December 2016

	Activity in Israel												
	Households												
	Total	Of which: houing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	NIS millions												
Interest income from outside entities	3,434	1,677	246	11	1,840	683	1,640	19	847	-	8,474	1,078	9,552
Interest expense to outside entities	404	-	-	157	61	80	175	419	588	-	1,884	142	2,026
Interest income, net													
From outside entities	3,030	1,677	246	(146)	1,779	603	1,465	(400)	259	-	6,590	936	7,526
Intersegmental	(452)	(961)	(4)	232	(179)	(32)	(303)	457	317	(10)	30	(30)	-
Total interest income (expenses), net	2,578	716	242	86	1,600	571	1,162	57	576	(10)	6,620	906	7,526
Total non-interest income	1,737	45	876	161	682	318	657	163	1,308	139	5,165	243	5,408
Total income	4,315	761	1,118	247	2,282	889	1,819	220	1,884	129	11,785	1,149	12,934
Expenses (income) in respect of credit losses	521	(3)	76	1	222	(120)	(687)	(33)	(64)	-	(160)	35	(125)
Operating and other expenses (income):													
To outside entities	4,089	280	719	131	1,333	501	645	284	204	448	7,635	945	8,580
Intersegmental	23	1	22	-	-	-	1	1	(26)	-	(1)	1	-
Total operating and other expenses	4,112	281	741	131	1,333	501	646	285	178	448	7,634	946	8,580
Profit (loss) before taxes	(318)	483	301	115	727	508	1,860	(32)	1,770	(319)	4,311	168	4,479
Provision for (benefit from) taxes on the profit	(146)	171	78	42	257	179	662	(11)	675	(11)	1,647	70	1,717
Profit (loss) after taxes	(172)	312	223	73	470	329	1,198	(21)	1,095	(308)	2,664	98	2,762
Share of the banking corporation in profits (losses) of companies included on equity basis	-	-	-	-	-	-	-	-	66	-	66	-	66
Net profit (loss) before attribution to non-controlling interests	(172)	312	223	73	470	329	1,198	(21)	1,161	(308)	2,730	98	2,828
Net profit (loss) attributed to non-controlling interests	42	-	42	-	4	2	4	-	(1)	(14)	37	-	37
Net profit (loss) attributed to shareholders of the banking corporation	(214)	312	181	73	466	327	1,194	(21)	1,162	(294)	2,693	98	2,791
Average balance of assets (a)	116,601	76,150	10,967	601	45,425	24,586	58,477	891	140,100	10,432	397,113	35,692	432,805
Of which: Investments in companies included on equity basis (a	-	-	-	-	-	-	-	-	1,341	-	1,341	-	1,341
Average balance of credit to the public (a)	115,714	76,150	10,950	585	45,211	24,777	58,707	891	-	-	245,885	23,426	269,311
Balance of credit to the public at the end of the reporting period	114,516	73,928	11,337	615	47,572	24,178	53,137	1,486	-	-	241,504	23,946	265,450
Balance of impaired debts	108	-	17	-	492	368	1,626	451	-	-	3,045	608	3,653
Balance of debts in arrears of more than 90 days	841	715	-	-	76	3	19	-	-	-	939	64	1,003
Average balance of liabilities (a)	115,191	-	141	29,199	34,278	32,990	51,824	57,162	42,994	11,482	375,120	27,716	402,836
Of which: Average balance of deposits of the public (a)	114,884	-	79	29,188	31,565	31,891	48,570	54,836	-	-	310,934	26,275	337,209
Balance of deposits of the public at the end of the reporting peri	117,863	-	68	28,696	36,535	33,026	48,151	55,862	-	-	320,133	26,721	346,854
Average balance of risk assets (a) (b)	85,860	54,532	9,751	892	46,207 (d)	32,714 (d)	62,615 (d)	1,118 (d)	21,880	16,338	267,624	30,814	298,438
Balance of risk assets at the end of the reporting period (b)	85,810	54,500	9,746	893	40,876 (d)	29,965 (d)	67,463 (d)	1,460 (d)	17,219	17,002	260,688	31,477	292,165
Average balance of assets under management (a) (c)	79,493	-	-	50,439	25,949	19,999	68,049	499,364	37,557	-	780,850	19,874	800,724
Distribution of interest income (expenses), net:													
Margin on credit granting activity	2,317	716	242	6	1,544	526	1,117	15	2,230	-	7,755	942	8,697
Margin on deposit taking activity	261	-	-	80	56	45	44	39	(1,623)	-	(1,098)	(126)	(1,224)
Other	-	-	-	-	-	-	1	3	(31)	(10)	(37)	90	53
Total interest income (expenses), net	2,578	716	242	86	1,600	571	1,162	57	576	(10)	6,620	906	7,526

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

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

(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.
(d) Reclassified.

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 31 March 2017

Unaudited

NIS millions

	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	**980**	**235**	**133**	**116**	**106**	**(1)**	**61**	**243**	**1,873**
Non-interest income	**451**	**102**	**54**	**89**	**264**	**79**	**293**	**(45)**	**1,287**
Total income	**1,431**	**337**	**187**	**205**	**370**	**78**	**354**	**198**	**3,160**
Expenses (income) in respect of credit losses	**93**	**4**	**(7)**	**15**	**(15)**	**(7)**	**17**	**1**	**101**
Total operating and other expenses	**1,056**	**158**	**68**	**36**	**69**	**232**	**232**	**199**	**2,050**
Profit before tax	**282**	**175**	**126**	**154**	**316**	**(147)**	**105**	**(2)**	**1,009**
Tax expenses (income)	**99**	**62**	**44**	**54**	**111**	**(39)**	**29**	**28**	**388**
Net profit (loss) attributed to shareholders of the banking corporation*	**183**	**113**	**82**	**100**	**205**	**(108)**	**77**	**(30)**	**622**
Balances at 31 March 2017									
Credit to the public, net	**138,769**	**34,897**	**33,248**	**19,006**	**4,592**	**3,273**	**7,945**	**22,977**	**264,707**
Deposits of the public	**189,994**	**40,768**	**20,476**	**5,779**	**59,105**	**49**	**93**	**25,399**	**341,663**
Assets under management	**181,394**	**25,918**	**18,255**	**1,991**	**369,400**	**26,422**	**226,640**	**18,992**	**869,012**

For the three months ended 31 March 2016

Unaudited

NIS millions

	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	911	221	115	142	18	(27)	49	226	1,655
Non-interest income	440	107	52	85	(56)	68	315	21	1,032
Total income	1,351	328	167	227	(38)	41	364	247	2,687
Expenses (income) in respect of credit losses	154	(11)	(82)	(176)	(4)	5	2	(11)	(123)
Total operating and other expenses	1,051	163	87	42	71	150	217	209	1,990
Profit (loss) before tax	146	176	162	361	(105)	(114)	145	49	820
Tax expenses (income)	52	63	58	130	(38)	43	45	18	371
Net profit attributed to shareholders of the banking corporation	94	113	104	231	(66)	(157)	109	31	459
Balances at 31 March 2016									
Credit to the public, net	139,269	33,722	32,074	24,364	3,788	2,639	6,234	22,043	264,133
Deposits of the public	180,922	39,832	17,833	6,623	60,572	(290)	78	24,784	330,354
Assets under management	179,858	25,607	17,073	2,556	331,138	27,008	183,264	19,144	785,648

(a) Reclassified.

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

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

	For the year ended 31 December 2016								
	Audited								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	3,761	895	521	526	650	(1)	237	937	7,526
Non-interest income	1,768	401	209	343	863	686	1,130	8	5,408
Total income	5,529	1,296	730	869	1,513	685	1,367	945	12,934
Expenses (income) in respect of credit losses	755	(72)	(376)	(392)	(55)	(20)	37	(2)	(125)
Total operating and other expenses	4,505	701	356	176	368	625	905	944	8,580
Profit (loss) before tax	269	667	750	1,085	1,200	80	425	3	4,479
Tax expenses (income)	96	240	269	389	431	5	218	69	1,717
Net profit attributed to shareholders of the banking corporation	173	427	481	696	774	75	231	(66)	2,791

Balances at 31 December 2016									
Credit to the public, net	138,638	34,089	30,238	21,229	3,779	2,966	7,407	23,567	261,913
Deposits of the public	191,156	41,698	19,772	7,702	59,696	40	68	26,722	346,854
Assets under management	176,638	26,781	18,607	1,814	362,413	25,503	189,681	19,244	820,681

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

1. Change in balance of allowance for credit losses

	For the three months ended 31 March 2017 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	ther private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	**2,727**	**473**	**825**	**4,025**	**1**	**4,026**
Expenses (income) in respect of credit losses	**96**	**(2)**	**7**	**101**	**-**	**101**
Accounting write-offs	**(179)**	**(2)**	**(172)**	**(353)**	**-**	**(353)**
Collection of debts written off in previous years	**106**	**-**	**109**	**215**	**-**	**215**
Net accounting write-offs	**(73)**	**(2)**	**(63)**	**(138)**	**-**	**(138)**
Adjustments from translation of financial statements	**(10)**	**1**	**-**	**(9)**	**-**	**(9)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,740**	**470**	**769**	**3,979**	**1**	**3,980**
[1]Of which: in respect of off-balance sheet credit instruments	**476**	**-**	**38**	**514**	**-**	**514**

	For the three months ended 31 March 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	ther private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of reporting period	2,981 (c)	513	659 (c)	4,153	3	4,156
s (income) in respect of credit losses	(268)	(2)	148	(122)	(1)	(123)
Accounting write-offs	(192) (c) (b)	(2)	(142) (c)	(336)	-	(336)
Collection of debts written off in previous years	229 (b)	-	90	319	-	319
Net accounting write-offs	37	(2)	(52)	(17)	-	(17)
Adjustments from translation of financial statements	(5) (b)	1	- (b)	(4)	-	(4)
Balance of allowance for credit losses at end of the reporting period[1]	2,745	510	755	4,010	2	4,012
[1]Of which: in respect of off-balance sheet credit instruments	438	-	33	471	-	471

(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) Restated.

(c) 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 March 2017 (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	**109,675**	**41**	**575**	**110,291**	**7,758**	**118,049**
Examined on a collective basis[1]	**40,677**	**78,420**	**38,784**	**157,881**	**3,357**	**161,238**
[1]Of which: the allowance was calculated by extent of arrears	**979** (c)	**77,978**	**-**	**78,957**	**-**	**78,957**
Total debts(a)	**150,352**	**78,461**	**39,359**	**268,172**	**11,115**	**279,287**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,845**	**6**	**67**	**1,918**	**1**	**1,919**
Examined on a collective basis[2]	**419**	**464**	**664**	**1,547**	**-**	**1,547**
[2]Of which the allowance was calculated by extent of arrears	**-**	**459** (b)	**-**	**459**	**-**	**459**
Total allowance for credit losses[3]	**2,264**	**470**	**731**	**3,465**	**1**	**3,466**
[3]Of which in respect of impaired debts	**658**	**-**	**20**	**678**	**-**	**678**

(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 290 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

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

	31 March 2016 (Unaudited)					
	Credit to the public					
	Commercial	Residential	ther private	Total	Banks and governments	Total
	NIS millions					
Recorded debt balance of debts[a]						
Examined on an individual basis	112,810 (d)	61	1,823 (d)	114,694	8,174	122,868
Examined on a collective basis[1]	35,575 (d)	81,419	35,984	152,978	3,561	156,539
[1]Of which: the allowance was calculated by extent of arrears	1,032 (c)	80,366	-	81,398	-	81,398
Total debts(a)	148,385	81,480	37,807	267,672	11,735	279,407
Allowance for credit losses for debts[a]:						
Examined on an individual basis	1,954 (d)	13	115	2,082	2	2,084
Examined on a collective basis[2]	353	497	607	1,457	-	1,457
[2]Of which the allowance was calculated by extent of arrears	-	495	-	495	-	495
Total allowance for credit losses[3]	2,307	510	722	3,539	2	3,541
[3]Of which in respect of impaired debts	633 (d)	-	23	656	-	656

(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 307 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Restated.

Note 13 – Additional Information on Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'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 2016 (Audited)					
	Credit to the public					
	Commercial	Residential	ther private	Total	Banks and governments	Total
	(NIS millions)					
Recorded debt balance of debts[a]						
Examined on an individual basis	106,782	(d) 45	542	(d) 107,369	7,890	115,259
Examined on a collective basis[3]	40,980	(d) 79,086	38,015	(d) 158,081	4,148	162,229
[3]Of which: the allowance was calculated by extent of arrears	909	(c) 78,656	-	79,565	-	79,565
Total debts(a)	147,762	79,131	38,557	265,450	12,038	277,488
Allowance for credit losses for debts[a]:						
Examined on an individual basis	1,855	(d) 6	57	(d) 1,918	1	1,919
Examined on a collective basis[4]	420	(d) 467	732	(d) 1,619	-	1,619
[4]Of which the allowance was calculated by extent of arrears	-	462	-	462	-	462
Total allowance for credit losses[3]	2,275	473	789	3,537	1	3,538
[3]Of which in respect of impaired debts	671	-	12	683	-	683

(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 294 million.

(c) Including the balance of housing loans granted to purchasing groups in process of construction.

(d) Reclassified.

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

B. Debts [a]

1. Credit quality and arrears

	31 March 2017 (Unaudited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)(h)	In arrears of 30 to 89 days (e)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction (g)	15,448	249	254	15,951	17	48
Construction & real estate - real estate activities (g)	23,381	343	602	24,326	25	10
Financial services	11,319	3	334	11,656	1	8
Commercial - other	66,879	1,673	1,479	70,031	58	172
Total commercial	117,027	2,268	2,669	121,964	101	238
Private individuals - housing loans (f)	77,270	698	-	77,968	698	480
Private individuals - other	38,225	450	122	38,797	86	219
Total public - activity in Israel	232,522	3,416	2,791	238,729	885	937
Israeli banks	742	-	-	742	-	-
Government of Israel	234	-	-	234	-	-
Total activity in Israel	233,498	3,416	2,791	239,705	885	937
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	9,185	53	284	9,522	15	51
Commercial - other	18,094	451	321	18,866	35	308
Total commercial	27,279	504	605	28,388	50	359
Private individuals	1,010	-	45	1,055	-	2
Total public - activity abroad	28,289	504	650	29,443	50	361
Foreign banks	9,753	-	-	9,753	-	-
Foreign governments	386	-	-	386	-	-
Total activity abroad	38,428	504	650	39,582	50	361
Total public	260,811	3,920	3,441	268,172	935	1,298
Total banks	10,495	-	-	10,495	-	-
Total governments	620	-	-	620	-	-
Total	271,926	3,920	3,441	279,287	935	1,298

See notes on page 167.

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

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	31 March 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	15,464	294	274	16,032	9	33
Construction & real estate - real estate activities	23,737	708	699	25,144	5	19
Financial services	10,576	13	46	10,635	2	1
Commercial - other	65,694	1,746	1,741	69,181	40	142
Total commercial	115,471	2,761	2,760	120,992	56	195
Private individuals - housing loans (f)	79,607	747	-	80,354	719	493
Private individuals - other	36,637	318	141	37,096	75	281
Total public - activity in Israel	231,715	3,826	2,901	238,442	850	969
Israeli banks	2,354	-	-	2,354	-	-
Government of Israel	196	-	-	196	-	-
Total activity in Israel	234,265	3,826	2,901	240,992	850	969
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	8,625 (i)	115	377	9,117	4	33
Commercial - other	17,694 (i)	277	305	18,276	2	48
Total commercial	26,319	392	682	27,393	6	81
Private individuals	1,761 (i)	3	73	1,837	1	3
Total public - activity abroad	28,080	395	755	29,230	7	84
Foreign banks	8,969	-	-	8,969	-	-
Foreign governments	216	-	-	216	-	-
Total activity abroad	37,265	395	755	38,415	7	84
Total public	259,795	4,221	3,656	267,672	857	1,053
Total banks	11,323	-	-	11,323	-	-
Total governments	412	-	-	412	-	-
Total	271,530	4,221	3,656	279,407	857	1,053

See notes on page 167.

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 2016 (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	15,037	275	264	15,576	19	58
Construction & real estate - real estate activities	22,881	360	637	23,878	12	35
Financial services	10,390	5	459	10,854	2	2
Commercial - other	65,119	1,745	1,550	68,414	65	144
Total commercial	113,427	2,385	2,910	118,722	98	239
Private individuals - housing loans (f)	77,926	719	-	78,645	719	530
Private individuals - other	37,502	531	108	38,141	122	252
Total public - activity in Israel	228,855	3,635	3,018	235,508	939	1,021
Israeli banks	1,742	-	-	1,742	-	-
Government of Israel	206	-	-	206	-	-
Total activity in Israel	230,803	3,635	3,018	237,456	939	1,021
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	9,210	5	325	9,540	3	14
Commercial - other	18,835	405	260	19,500	60	56
Total commercial	28,045	410	585	29,040	63	70
Private individuals	851	1	50	902	1	3
Total public - activity abroad	28,896	411	635	29,942	64	73
Foreign banks	9,654	-	-	9,654	-	-
Foreign governments	436	-	-	436	-	-
Total activity abroad	38,986	411	635	40,032	64	73
Total public	257,751	4,046	3,653	265,450	1,003	1,094
Total banks	11,396	-	-	11,396	-	-
Total governments	642	-	-	642	-	-
Total	269,789	4,046	3,653	277,488	1,003	1,094

See notes on next page.

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 580 million were classified as problem debts that are not impaired (31 March 2016 – NIS 524 million, 31 December 2016 – NIS 674 million).

(f) Including balance of housing loans in the amount of NIS 111 million (31 March 2016 – NIS 144 million, 31 December 2016 – NIS 114 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) 3.9% 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) The balance of unimpaired debits in arrears of 90 days or more, as at 31 March 2017, NIS 885 million, is credit given by the Bank, of which about NIS 187 million is in respect of non-housing loans, and about NIS 698 million is in respect of housing loans, of which NIS 147 million is in arrears of up to 149 days, NIS 128 million is in arrears of 150-249 days, and the balance is in respect of a loan in arrears of 250 days or more.

(i) Restated.

Credit quality – status of debts in arrears[a]

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears). In most cases after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

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

B. Debts[a] (cont'd)

2. Additional information on impaired debts

a. Impaired debts and individual allowance

	31 March 2017 (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	42	25	212	254	774
Construction & real estate - real estate activities	114	75	488	602	1,725
Financial services	5	4	329	334	809
Commercial - other	612	390	867	1,479	4,585
Total commercial	773	494	1,896	2,669	7,893
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	19	11	103	122	2,280
Total public - activity in Israel	792	505	1,999	2,791	10,173
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	792	505	1,999	2,791	10,173
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	187	96	97	284	431
Commercial - other	219	68	102	321	634
Total commercial	406	164	199	605	1,065
Private individuals	28	9	17	45	106
Total public - activity abroad	434	173	216	650	1,171
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	434	173	216	650	1,171
Total public	1,226	678	2,215	3,441	11,344
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,226	678	2,215	3,441	11,344
Of which:					
Measured by present value of cash flows	889	477	1,384	2,273	
Debts under troubled debt restructuring	218	125	1,654	1,872	

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Recorded balance of debt.

(c) Individual allowance for credit losses.

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

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 March 2016 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an andividual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Principal contractual balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	104	22	170	274	851
Construction & real estate - real estate activities	591	83 (d)	108 (d)	699	1,948
Financial services	-	-	46	46	561
Commercial - other	1,417	305	324	1,741	4,979
Total commercial	2,112	410	648	2,760	8,339
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	75	6	66	141	2,080
Total public - activity in Israel	2,187	416	714	2,901	10,419
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	2,187	416	714	2,901	10,419
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	262	134	115	377	508
Commercial - other	244	89	61	305	594
Total commercial	506	223	176	682	1,102
Private individuals	35	17	38	73	119
Total public - activity abroad	541	240	214	755	1,221
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	541	240	214	755	1,221
Total public	2,728	656	928	3,656	11,640
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	2,728	656	928	3,656	11,640
Of which:					
Measured by present value of cash flows	2,076	393 (d)	517	2,593	
Debts under troubled debt restructuring	1,183	175	672	1,855	

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Recorded balance of debt.

(c) Individual allowance for credit losses.

(d) Restated.

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 2016 (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	54	24	210	264	790
Construction & real estate - real estate activities	132	76	505	637	1,773
Financial services	1	1	458	459	958
Commercial - other	638	390	912	1,550	4,630
Total commercial	825	491	2,085	2,910	8,151
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	20	3	88	108	2,199
Total public - activity in Israel	845	494	2,173	3,018	10,350
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	845	494	2,173	3,018	10,350
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	216	107	109	325	467
Commercial - other	180	73	80	260	587
Total commercial	396	180	189	585	1,054
Private individuals	16	9	34	50	108
Total public - activity abroad	412	189	223	635	1,162
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total public - activity abroad	412	189	223	635	1,162
Total public	1,257	683	2,396	3,653	11,512
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,257	683	2,396	3,653	11,512
Of which:					
Measured by present value of cash flows	938	481	1,545	2,483	
Debts under troubled debt restructuring	302	109	1,756	2,058	

(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)

b. Average balance and interest income

	For the three months ended 31 March 201			For the three months ended 31 March 2016		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	paired debts	Interest income recorded (c)	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**259**	**-**	**-**	415	1	1
Construction & real estate - real estate activities	**608**	**2**	**1**	807 (e)	1 (e)	1 (e)
Financial services	**396**	**-**	**-**	54	-	-
Commercial - other	**1,514**	**6**	**2**	1,618	3(e)	3
Total commercial	**2,777**	**8**	**3**	2,894	5	5
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**115**	**2**	**1**	99	-	-
Total public - activity in Israel	**2,892**	**10**	**4**	2,993	5	5
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**2,892**	**10**	**4**	2,993	5	5
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**303**	**1**	**1**	410	2	2
Commercial - other	**319**	**1**	**1**	273	2	2
Total commercial	**622**	**2**	**2**	683	4	4
Private individuals	**33**	**-**	**-**	66	1	1
Total public - activity abroad	**655**	**2**	**2**	749	5	5
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**655**	**2**	**2**	749	5	5
Total public	**3,547**	**12**	**6**	3,742	10	10
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**3,547**	**12** (d)	**6**	3,742	10 (d)	10

(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 77 million for 31 March 2017 (31 March 2016 – NIS 80 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[e]

	31 March 2017				31 March 2016			
	Not accruing interest income	lays (b)(d)	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing in arrears of 30 to 89 days (b)(d)	Accruing (b) not in arrears	Total (c)
	Unaudited							
	NIS millions							
Activity of borrowers in Israel								
Public - commercial								
Construction & real estate - construction	**177**	**-**	**12**	**189**	132	-	24	156
Construction & real estate - real estate activities	**331**	**-**	**44**	**375**	316	-	131	447
Financial services	**324**	**-**	**-**	**324**	1	-	13	14
Commercial - other	**345**	**1**	**262**	**608**	704	-	92	796
Total commercial	**1,177**	**1**	**318**	**1,496**	1,153	-	260	1,413
Private individuals - housing loans	**-**	**-**	**-**	**-**	#REF!	-	#REF!	#REF!
Private individuals - other	**61**	**1**	**23**	**85**	59	-	20	79
Total public - activity in Israel	**1,238**	**2**	**341**	**1,581**	1,212	-	280	1,492
Israeli banks	**-**	**-**	**-**	**-**	-	-	-	-
Government of Israel	**-**	**-**	**-**	**-**	-	-	-	-
Total activity in Israel	**1,238**	**2**	**341**	**1,581**	1,212	-	280	1,492
Activity of borrowers abroad								
Public - commercial								
Construction & real estate	**124**	**-**	**73**	**197**	160	-	102	262
Commercial - other	**47**	**-**	**37**	**84**	34	-	39	73
Total commercial	**171**	**-**	**110**	**281**	194	-	141	335
Private individuals	**5**	**-**	**5**	**10**	7	-	21	28
Total public - activity abroad	**176**	**-**	**115**	**291**	201	-	162	363
Foreign banks	**-**	**-**	**-**	**-**	-	-	-	-
Foreign governments	**-**	**-**	**-**	**-**	-	-	-	-
Total activity abroad	**176**	**-**	**115**	**291**	201	-	162	363
Total public	**1,414**	**2**	**456**	**1,872**	1,413	-	442	1,855
Total banks	**-**	**-**	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	**-**	**-**	-	-	-	-
Total	**1,414**	**2**	**456**	**1,872**	1,413	-	442	1,855

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Accruing interest income.

(c) Included in impaired debts.

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

(e) For details of the initial implementation of the update of the directives of the Banking Supervision Department on the restructuring of troubled debt, see Note 1H.

Commitments for granting additional credit to borrowers who underwent troubled debt restructuring in which changes were made to the terms of the credit amounted at 31 March 2017 to NIS 16 million (as at 31 March 2016 – NIS 69 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 2016 (Audited)			
	Not accruing interest income	Accruing in arrears of 30 to 89 days	Accruing (b) not in arrears	Total (c)
	NIS millions			
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	199	-	13	212
Construction & real estate - real estate activities	346	4	44	394
Financial services	405	-	-	405
Commercial - other	395	2	217	614
Total commercial	1,345	6	274	1,625
Private individuals - housing loans	-	-	-	-
Private individuals - other	52	2	23	77
Total public - activity in Israel	1,397	8	297	1,702
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	1,397	8	297	1,702
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	152	-	83	235
Commercial - other	62	-	49	111
Total commercial	214	-	132	346
Private individuals	5	-	5	10
Total public - activity abroad	219	-	137	356
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	219	-	137	356
Total public	1,616	8	434	2,058
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	1,616	8	434	2,058

(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.

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

(e) For details of the initial implementation of the update of the directives of the Banking Supervision Department on the restructuring of troubled debt, see Note 1H.

Commitments for granting additional credit to borrowers who underwent troubled debt restructuring in which changes were made to the terms of the credit amounted at 31 December 2016 to NIS 16 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 (b) (cont'd)

1. Restructurings carried out

	For the three months ended 31 March 2017			For the three months ended 31 March 2016		
	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	**82**	**5**	**5**	51	3	3
Construction & real estate - real estate activities	**9**	**2**	**2**	11	-	-
Financial services	**7**	**-**	**-**	3	-	-
Commercial - other	**231**	**19**	**18**	217	15	15
Total commercial	**329**	**26**	**25**	282	18	18
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**1,955**	**19**	**19**	1,580	5	2
Total public - activity in Israel	**2,284**	**45**	**44**	1,862	23	20
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**2,284**	**45**	**44**	1,862	23	20
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**5**	**27**	**26**	2	14	14
Commercial - other	**11**	**5**	**5**	4	8	8
Total commercial	**16**	**32**	**31**	6	22	22
Private individuals	**5**	**1**	**1**	2	-	-
Total public - activity abroad	**21**	**33**	**32**	8	22	22
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**21**	**33**	**32**	8	22	22
Total public	**2,305**	**78**	**76**	1,870	45	42
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**2,305**	**78**	**76**	1,870	45	42

(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) For details of the initial implementation of the update of the directives of the Banking Supervision Department on the restructuring of troubled debt, see Note 1H.

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

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

2. Failed restructurings carried out[(b)]

	For the three months ended 31 March 2017		For the three months ended 31 March 2016	
	Number of contracts	Recorded debt balance (c)	Number of contracts	Recorded debt balance (c)
	Unaudited			
		NIS millions		NIS millions
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	**66**	**2**	15	2
Construction & real estate - real estate activities	**3**	**1**	1	-
Financial services	**4**	**-**	1	-
Commercial - other	**199**	**6**	47	6
Total commercial	**272**	**9**	64	8
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**1,280**	**8**	253	4
Total public - activity in Israel	**1,552**	**17**	317	12
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**1,552**	**17**	317	12
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**1**	**2**	3	1
Commercial - other	**1**	**-**	4	1
Total commercial	**2**	**2**	7	2
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**2**	**2**	7	2
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**2**	**2**	7	2
Total public	**1,554**	**19**	324	14
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**1,554**	**19**	324	14

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

(d) 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.

(e) For details of the initial implementation of the update of the directives of the Banking Supervision Department on the restructuring of troubled debt, see Note 1H.

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

B. Debts[a] (cont'd)

3. Additional information on housing loans

Balances at the end of the period by loan to value ratio (LTV)[(b)], type of repayment and type of interest

		31 March 2017 (Unaudited)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		NIS millions			
First charge: financing rate	Up to 60%	**50,127**	**2,680**	**33,114**	**1,607**
	More than 60%	**28,293**	**838**	**19,986**	**152**
Second charge or no charge		**41**	**2**	**35**	**21**
Total		**78,461**	**3,520**	**53,135**	**1,780**

		31 March 2016 (Unaudited)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total [(c)]
		NIS millions			
First charge: financing rate	Up to 60%	51,249	3,553	34,402	1,894
	More than 60%	29,439	1,151	20,955	578
Second charge or no charge		792	22	597	70
Total		81,480	4,726	55,954	2,542

		31 December 2016 (Audited)			
Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total [(c)]
		NIS millions			
First charge: financing rate	Up to 60%	50,331	2,752	33,267	1,681
	More than 60%	28,788	888	20,379	216
Second charge or no charge		12	-	6	27
Total		79,131	3,640	53,652	1,924

(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.

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

C. Off-balance sheet financial instruments

	31 March 2017		31 March 2016		31 December 2016	
	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	**1,369**	**1**	1,653	5	1,419	1
Credit guarantees	**5,538**	**108**	6,020	101	5,843	113
Guarantees to apartment purchasers	**19,648**	**19**	19,001	21	19,555	17
Other guarantees and liabilities (b)	**15,023**	**251**	16,599	200	15,859	236
Unutilized credit card facilities	**25,850**	**26**	24,871	24	25,522	26
Other unutilized revolving credit facilities and credit facilities in accounts on demand	**12,523**	**25**	13,069	25	12,492	24
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	**24,164**	**64**	24,791	72	23,209	51
Commitments to issue guarantees	**14,669**	**20**	14,239	23	13,833	20
Unutilized facilities for activity in derivative instruments	**2,961**	**-**	4,059	-	2,912	-
Approval in principle for a guaranteed rate of interest	**3,838**	**-**	3,974	-	2,725	-

[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 218 million (31 March 2016 – NIS 226 million, 31 December 2016 - NIS 231 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 106 million (as at 31 March 2016 and as at 31 December 2016, NIS 188 million and NIS 100 million, respectively).

D. Information on loans sold

Proceeds of NIS 1,623 million and NIS 1,100 million were received for housing loans and commercial loans, respectively, sold in 2016 (215 - NIS 317 million for commercial loans sold).

Note 14 –Assets and Liabilities by Linkage Basis

	31 March 2017 (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	**58,082**	**-**	**7,035**	**921**	**2,024**	**213**	**68,275**
Securities	**36,836**	**3,539**	**27,233**	**5,209**	**2,749**	**2,393**	**77,959**
Securities borrowed or purchased under agreements to resell	**903**	**-**	**-**	**-**	**-**	**-**	**903**
Credit to the public, net (c)	**183,375**	**43,721**	**29,398**	**3,615**	**4,383**	**215**	**264,707**
Credit to governments	**57**	**98**	**420**	**45**	**-**	**-**	**620**
Investments in companies included on equity basis	**-**	**-**	**-**	**-**	**-**	**878**	**878**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,016**	**3,016**
Assets in respect of derivative instruments	**7,601**	**140**	**1,822**	**99**	**176**	**1,194**	**11,032**
Other assets	**5,972**	**10**	**722**	**4**	**55**	**1,128**	**7,891**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Total assets	**292,826**	**47,508**	**66,630**	**9,893**	**9,387**	**9,054**	**435,298**
Liabilities							
Deposits of the public	**216,837**	**19,588**	**85,830**	**12,281**	**6,627**	**500**	**341,663**
Deposits from banks	**1,035**	**18**	**2,597**	**795**	**48**	**-**	**4,493**
Deposits from governments	**77**	**-**	**689**	**4**	**-**	**-**	**770**
Securities lent or sold under agreements to repurchase	**462**	**-**	**4**	**-**	**-**	**15**	**481**
Debentures, bonds and subordinated notes	**6,305**	**16,384**	**-**	**-**	**-**	**-**	**22,689**
Liabilities in respect of derivative instruments	**8,104**	**281**	**1,555**	**131**	**97**	**1,104**	**11,272**
Other liabilities	**9,126**	**10,279**	**598**	**23**	**156**	**1,127**	**21,309**
Total liabilities	**241,946**	**46,550**	**91,273**	**13,234**	**6,928**	**2,746**	**402,677**
Surplus assets (liabilities) (d)	**50,880**	**958**	**(24,643)**	**(3,341)**	**2,459**	**6,308**	**32,621**
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding	**(24,145)**	**(1,567)**	**24,502**	**3,570**	**(2,789)**	**429**	**-**
Options in the money, net (in terms of underlying asset)	**2,145**	**-**	**(1,670)**	**(526)**	**(22)**	**73**	**-**
Options out of the money, net (in terms of underlying asset)	**132**	**-**	**(67)**	**(100)**	**35**	**-**	**-**
Total	**29,012**	**(609)**	**(1,878)**	**(397)**	**(317)**	**6,810**	**32,621**
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	**2,801**	**-**	**(2,375)**	**(601)**	**(8)**	**183**	**-**
Options out of the money, net (discounted par value)	**4,160**	**-**	**(2,797)**	**(1,275)**	**130**	**(218)**	**-**

(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 1 million.
(d) Shareholders' equity including minority interests.

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

	31 March 2016 (Unaudited)						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non-monetary items (b)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	44,997	242	6,699	912	2,506	292	55,648
Securities	37,928	2,919	31,940	1,886	1,444	2,610	78,727
Securities borrowed or purchased under agreements to resell	1,621	-	-	-	-	-	1,621
Credit to the public, net (c)	177,017	48,477	27,817	5,234	5,387	201	264,133
Credit to governments	53	143	159	57	-	-	412
Investments in companies included on equity basis	-	-	-	-	-	899	899
Buildings and equipment	-	-	-	-	-	3,060	3,060
Assets in respect of derivative instruments	8,796	129	2,014	455	288	1,468	13,150
Other assets	6,459	3	846	7	39	536	7,890
Intangible assets and goodwill	-	-	-	-	-	17	17
Total assets	276,871	51,913	69,475	8,551	9,664	9,083	425,557
Liabilities							
Deposits of the public	198,602	25,731	83,860	12,903	8,736	522	330,354
Deposits from banks	1,963	33	2,022	382	41	-	4,441
Deposits from governments	53	1	746	8	-	-	808
Securities lent or sold under agreements to repurchase	845	-	-	-	-	-	845
Debentures, bonds and subordinated notes	6,606	18,154	-	-	-	50	24,810
Liabilities in respect of derivative instruments	9,053	172	2,307	618	425	1,421	13,996
Other liabilities	8,073	10,941	769	42	193	632	20,650
Total liabilities	225,195	55,032	89,704	13,953	9,395	2,625	395,904
Surplus assets (liabilities) (d)	51,676	(3,119)	(20,229)	(5,402)	269	6,458	29,653
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(22,366)	(950)	19,324	5,026	(1,073)	39	-
Options in the money, net (in terms of underlying asset)	(380)	-	546	(257)	91	-	-
Options out of the money, net (in terms of underlying asset)	617	-	(573)	(145)	101	-	-
Total	29,547	(4,069)	(932)	(778)	(612)	6,497	29,653
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	(347)	-	513	(306)	140	-	-
Options out of the money, net (discounted par value)	960	-	47	(1,021)	14	-	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances attributed to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,572 million.
(d) Shareholders' equity including minority interests.

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

	31 December 2016 (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	63,306	247	7,059	1,245	2,615	285	74,757
Securities	35,314	3,701	31,710	2,934	1,599	1,943	77,201
Securities borrowed or purchased under agreements to resell	1,284	-	-	-	-	-	1,284
Credit to the public, net (c)	179,553	44,374	29,299	3,931	4,576	180	261,913
Credit to governments	57	149	382	54	-	-	642
Investments in companies included on equity basis	-	-	-	-	-	901	901
Buildings and equipment	-	-	-	-	-	3,147	3,147
instruments	5,601	98	3,031	257	131	1,536	10,654
Other assets	6,035	4	914	4	27	1,103	8,087
Intangible assets and goodwill	-	-	-	-	-	17	17
Total assets	291,150	48,573	72,395	8,425	8,948	9,112	438,603
Liabilities							
Deposits of the public	216,180	20,389	88,469	14,582	6,726	508	346,854
Deposits from banks	987	18	1,640	710	39	-	3,394
Deposits from governments	68	-	824	8	-	-	900
Securities lent or sold under agreements to repurchase	534	-	5	-	-	-	539
Debentures, bonds and subordinated notes	6,292	16,348	-	-	-	-	22,640
Liabilities in respect of derivative instruments	5,842	230	2,729	279	132	1,465	10,677
Other liabilities	9,152	10,603	727	27	184	1,192	21,885
Total liabilities	239,055	47,588	94,394	15,606	7,081	3,165	406,889
Surplus assets (liabilities) (d)	52,095	985	(21,999)	(7,181)	1,867	5,947	31,714
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(26,208)	(1,469)	22,376	7,593	(2,433)	141	-
Options in the money, net (in terms of underlying asset)	1,425	-	(1,318)	(214)	(31)	138	-
Options out of the money, net (in terms of underlying asset)	641	-	(180)	(476)	15	-	-
Total	27,953	(484)	(1,121)	(278)	(582)	6,226	31,714
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	2,101	-	(2,012)	(253)	(37)	201	-
Options out of the money, net (discounted par value)	1,903	-	(500)	(1,447)	44	-	-

(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 3,537 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)

	31 March 2017 (Unaudited)				
	Book value	Fair value Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	**68,275**	**59,295**	**7,481**	**1,506**	**68,282**
Securities (b)	**77,959**	**47,136**	**28,476**	**2,321**	**77,933**
Securities borrowed or purchased under agreements to resell	**903**	**903**	**-**	**-**	**903**
Credit to the public, net	**264,707**	**2,495**	**73,888**	**186,462**	**262,845**
Credit to governments	**620**	**-**	**31**	**618**	**649**
Assets in respect of derivative instruments	**11,032**	**698**	**8,759**	**1,575**	**11,032**
Other financial assets	**1,600**	**799**	**-**	**801**	**1,600**
Total financial assets	**425,096 (c)**	**111,326**	**118,635**	**193,283**	**423,244**
Financial liabilities					
Deposits of the public	**341,663**	**2,396**	**230,747**	**109,937**	**343,080**
Deposits from banks	**4,493**	**-**	**4,648**	**56**	**4,704**
Deposits from governments	**770**	**-**	**702**	**85**	**787**
Securities lent or sold under agreements to repurchase	**481**	**481**	**-**	**-**	**481**
Debentures, notes and subordinated notes	**22,689**	**17,912**	**-**	**6,065**	**23,977**
Liabilities in respect of derivative instruments	**11,272**	**694**	**10,153**	**425**	**11,272**
Other financial liabilities	**8,122**	**1,178**	**5,550**	**1,395**	**8,123**
Total financial liabilitiies	**389,490 (c)**	**22,661**	**251,800**	**117,963**	**392,424**
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	**373**	**-**	**-**	**373**	**373**
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	**15,996**	**-**	**175**	**15,821**	**15,996**

(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 127,690 million and NIS 158,906 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)

	31 March 2016 (Unaudited)				
	Book value	Fair value Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	55,648	45,991	8,016	1,686	55,693
Securities (b)	78,727	56,155	20,253 (e)	2,318 (e)	78,727
Securities borrowed or purchased under agreements to resell	1,621	1,621	-	-	1,621
Credit to the public, net	264,133	2,537	72,163	189,740	264,440
Credit to governments	412	-	15	409	424
Assets in respect of derivative instruments	13,150	1,141	10,435	1,574	13,150
Other financial assets	1,473	398	-	1,076	1,474
Total financial assets	415,164 (c)	107,843 (c)	110,882 (c)	196,803 (c)	415,529 (c)
Financial liabilities					
Deposits of the public	330,354	3,652	207,509	121,462	332,623
Deposits from banks	4,441	-	4,266	41	4,307
Deposits from governments	808	-	747	87	834
Securities lent or sold under agreements to repurchase	845	845	-	-	845
Debentures, notes and subordinated notes	24,810	18,941	377	5,742	25,060
Liabilities in respect of derivative instruments	13,996	1,142	12,612	242	13,996
Other financial liabilities	7,385	1,173	5,120	1,093	7,386
Total financial liabilitiies	382,639 (c)	25,753	230,631	128,667	385,051
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	337	-	-	337	337
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	16,544	-	182	16,362	16,544

(a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(b) For further details on the book value and fair value of securities, see Note 5 - Securities.

(c) Of which: assets and liabilities in the amounts of NIS 129,714 million and NIS 129,736 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B – 15D.

(d) Reclassified.

Note 15A – Balances and fair value assessments of financial instruments (cont'd)

	31 December 2016 (Audited)				
	Book value	Fair value Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	74,757	65,326	7,134	2,301	74,761
Securities (b)	77,201	50,337	24,457	2,407	77,201
Securities borrowed or purchased under agreements to resell	1,284	1,284	-	-	1,284
Credit to the public, net	261,913	2,522	73,382	184,726	260,630
Credit to governments	642	-	27	642	669
Assets in respect of derivative instruments	10,654	727	8,960	967	10,654
Other financial assets	1,755	980	-	776	1,756
Total financial assets	428,206 (c)	121,176	113,960	191,819	426,955
Financial liabilities					
Deposits of the public	346,854	2,379	232,144	113,396	347,919
Deposits from banks	3,394	-	3,302	76	3,378
Deposits from governments	900	-	833	86	919
Securities lent or sold under agreements to repurchase	539	539	-	-	539
Debentures, notes and subordinated notes	22,640	17,795	12	6,119	23,926
Liabilities in respect of derivative instruments	10,677	728	9,542	407	10,677
Other financial liabilities	8,446	1,746	5,294	1,407	8,447
Total financial liabilitiies	393,450 (c)	23,187	251,127	121,491	395,805
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	353	-	-	353	353
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	16,948	-	183	16,765	16,948

(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 120,850 million and NIS 156,667 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 31 March 2017 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	34,805	1,976	-	36,781
Foreign government bonds	5,425	4,851	-	10,276
Bonds of Israeli financial institutions	-	23	-	23
Bonds of overseas financial institutions	42	8,345	-	8,387
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	7,015	1,409	8,424
Other bonds in Israel	68	224	-	292
Other bonds abroad	-	2,291	-	2,291
Shares and mutual funds available for sale	1,481	-	-	1,481
Total securities available for sale	41,821	24,725	1,409	67,955
Securities held for trading:				
State of Israelbonds	4,958	80	-	5,038
Foreign government bonds	1	1,629	-	1,630
Bonds of financial institutions in Israel	211	-	-	211
Bonds of financial institutions abroad	-	414	-	414
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	260	-	260
Other bonds in Israel	145	-	-	145
Other bonds abroad	-	539	-	539
Total securities held for trading	5,315	2,922	-	8,237
Assets in respect of derivative instruments:				
Shekel-index contracts	-	126	217	343
Interest contracts	22	5,154	129	5,305
Foreign currency contracts	-	2,772	1,125	3,897
Share contracts	324	693	101	1,118
Commodities and other contracts	3	14	3	20
Activity in Maof market	349	-	-	349
Total assets in respect of derivative instruments:	698	8,759	1,575	11,032
Others:				
Credit and deposits in respect of lending of securites	2,495	6	-	2,501
Securities borrowed or purchased under agreements to resell	903	-	-	903
Other	800	-	-	800
Total others	4,198	6	-	4,204
Total assets	52,032	36,412	2,984	91,428

Note 15B – Items measured at fair value (cont'd)

A. Items measured for fair value on a recurring basis (cont'd)

	As at 31 March 2017 (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	-	251	162	413
Interest contracts	21	4,807	-	4,828
Foreign currency contracts	-	4,354	263	4,617
Share contracts	323	724	-	1,047
Commodities and other contracts	3	17	-	20
Activity in Maof market	347	-	-	347
Total liabilities in respect of derivative instruments	694	10,153	425	11,272
Others:				
Deposits in respect of lending of securites	2,229	9	50	2,288
Securities lent or sold under agreements to repurchase	481	-	-	481
Others	1,178	-	-	1,178
Total others	3,888	9	50	3,947
Total liabilities	4,582	10,162	475	15,219

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

	As at 31 March 2016 (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	34,932	1,876	-	36,808
Foreign government bonds	11,018	740	-	11,758
Bonds of Israeli financial institutions	-	35	-	35
Bonds of overseas financial institutions	75	5,396	-	5,471
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,019 (a)	1,938 (a)	9,957
Other bonds in Israel	107	448	-	555
Other bonds abroad	-	1,777	-	1,777
Shares and mutual funds available for sale	1,530	-	-	1,530
Total securities available for sale	47,662	18,291	1,938	67,891
Securities held for trading:				
State of Israelbonds	5,179	111	-	5,290
Foreign government bonds	2,833	-	-	2,833
Bonds of financial institutions in Israel	347	-	-	347
Bonds of financial institutions abroad	-	144	-	144
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	697	-	697
Other bonds in Israel	120	-	-	120
Other bonds abroad	-	325	-	325
Shares and mutual funds held for trading	14	-	-	14
Total securities held for trading	8,493	1,277	-	9,770
Assets in respect of derivative instruments:				
Shekel-index contracts	-	177	202	379
Interest contracts	23	6,822	312	7,157
Foreign currency contracts	-	2,882	903	3,785
Share contracts	712	545	134	1,391
Commodities and other contracts	6	9	23	38
Activity in Maof market	400	-	-	400
Total assets in respect of derivative instruments	1,141	10,435	1,574	13,150
Others:				
Credit and deposits in respect of lending of securites	2,536	3	-	2,539
Securities borrowed or purchased under agreements to resell	1,621	-	-	1,621
Other	398	-	-	398
Total others	4,555	3	-	4,558
Total assets	61,851	30,006	3,512	95,369

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

	As at 31 March 2016 (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	-	378	61	439
Interest contracts	30	7,085	-	7,115
Foreign currency contracts	-	4,475	181	4,656
Share contracts	712	642	-	1,354
Commodities and other contracts	6	32	-	38
Activity in Maof market	394	-	-	394
Total liabilities in respect of derivative instruments	1,142	12,612	242	13,996
Others:				
Deposits in respect of lending of securites	3,652	24	17	3,693
Securities lent or sold under agreements to repurchase	845	-	-	845
Others	1,173	-	-	1,173
Total others	5,670	24	17	5,711
Total liabilities	6,812	12,636	259	19,707

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

	As at 31 December 2016 (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	33,382	2,027	-	35,409
Foreign government bonds	9,994	1,935	-	11,929
Bonds of Israeli financial institutions	-	23	-	23
Bonds of overseas financial institutions	44	7,416	-	7,460
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,323	1,426	9,749
Other bonds in Israel	68	228	-	296
Other bonds abroad	-	1,882	-	1,882
Shares and mutual funds available for sale	961	-	-	961
Total securities available for sale	44,449	21,834	1,426	67,709
Securities held for trading:				
State of Israelbonds	5,091	-	-	5,091
Foreign government bonds	505	1,953	-	2,458
Bonds of financial institutions in Israel	159	-	-	159
Bonds of financial institutions abroad	-	104	-	104
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	280	-	280
Other bonds in Israel	132	-	-	132
Other bonds abroad	-	286	-	286
Shares and mutual funds held for trading	1	-	-	1
Total securities held for trading	5,888	2,623	-	8,511
Assets in respect of derivative instruments:				
Shekel-index contracts	-	137	202	339
Interest contracts	33	5,482	130	5,645
Foreign currency contracts	1	2,368	575	2,944
Share contracts	432	958	57	1,447
Commodities and other contracts	6	15	3	24
Activity in Maof market	255	-	-	255
Total assets in respect of derivative instruments	727	8,960	967	10,654
Others:				
Credit and deposits in respect of lending of securites	2,522	5	-	2,527
Securities borrowed or purchased under agreements to resell	1,284	-	-	1,284
Other	980	-	-	980
Total others	4,786	5	-	4,791
Total assets	55,850	33,422	2,393	91,665

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 2016 (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	-	238	162	400
Interest contracts	37	5,250	-	5,287
Foreign currency contracts	1	3,058	245	3,304
Share contracts	432	983	-	1,415
Commodities and other contracts	7	13	-	20
Activity in Maof market	251	-	-	251
Total liabilities in respect of derivative instruments:	728	9,542	407	10,677
Others:				
Deposits in respect of lending of securites	2,379	16	34	2,429
Securities lent or sold under agreements to repurchase	539	-	-	539
Others	1,746	-	-	1,746
Total others	4,664	16	34	4,714
Total liabilities	5,392	9,558	441	15,391

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

	As at 31 March 2017 (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	**-**	**-**	**968**	**968**	**18**
Total	**-**	**-**	**968**	**968**	**18**

	As at 31 March 2016 (Unaudited)				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
	(NIS millions)				
Collateral-dependent impaired credit	-	-	838	838	122
Total	-	-	838	838	122

	As at 31 December 2016 (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	-	-	968	968	291
Total	-	-	968	968	291

Note 15C – Changes in items measured for fair value on a recurring basis included in Level 3

	For the three months ended 31 March 2017 (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)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 31 March 2017	Unrealized profits (losses) in respect of instruments held at 31 March 2017
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**1,426**	**(71)**	**(6)**	**415**	**-**	**(355)**	**-**	**-**	**-**	**1,409**	**(1)**
Total bonds available for sale	**1,426**	**(71)**	**(6)**	**415**	**-**	**(355)**	**-**	**-**	**-**	**1,409**	**(1)**
Total shares available for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total bonds for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total shares for trading	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Assets in respect of derivative instruments:											
Shekel-index contracts	**202**	**(5)**	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**217**	**-**
Interest contracts	**130**	**52**	**-**	**-**	**-**	**(53)**	**-**	**-**	**-**	**129**	**13**
Foreign currency contracts	**575**	**(218)**	**-**	**768**	**-**	**-**	**-**	**-**	**-**	**1,125**	**561**
Share contracts	**57**	**44**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101**	**61**
Commodities and other contracts	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**1**
Total assets in respect of derivative instruments	**967**	**(127)**	**-**	**768**	**-**	**(53)**	**-**	**20**	(c) **-**	**1,575**	**636**
Total others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total assets	**2,393**	**(198)**	**(6)**	**1,183**	**-**	**(408)**	**-**	**20**	**-**	**2,984**	**635**
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	**162**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**162**	**14**
Foreign currency contracts	**245**	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**263**	**55**
Total liabilities in respect of derivative instruments	**407**	**39**	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**425**	**69**
Total others	**34**	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50**	**20**
Total liabilities	**441**	**55**	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**475**	**89**

(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).

(c) Transfers from Level 2 to Level 3 – forward contracts for the period of more than a year and less than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than a year.
Transfers from Level 3 to Level 2 – index forward contracts for the period of more than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than 5 years.

Note 15C – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the three months ended 31 March 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)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 31 March 2016	Unrealized profits (losses) in respect of instruments held at 31 March 2016
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(50)(d)	(4)	-	-	(11)	-	-	-	1,938(d)	(4)
Total bonds available for sale	2,003	(50)	(4)	-	-	(11)	-	-	-	1,938	(4)
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	174	9	-	-	-	-	-	19	-	202	(4)
Interest contracts	297	58	-	-	-	(43)	-	-	-	312	10
Foreign currency contracts	770	(98)	-	231	-	-	-	-	-	903	421
Share contracts	129	5	-	-	-	-	-	-	-	134	37
Commodities and other contracts	33	(10)	-	-	-	-	-	-	-	23	5
Total assets in respect of derivative instruments	1,403	(36)	-	231	-	(43)	-	19	-	1,574	469
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,406	(86)	(4)	231	-	(54)	-	19	-	3,512	465
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	53	(4)	-	-	-	-	-	12	-	61	17
Interest contracts	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	199	(18)	-	-	-	-	-	-	-	181	(39)
Total liabilities in respect of derivative instruments	252	(22)	-	-	-	-	-	12	-	242	(22)
Total others	13	4	-	-	-	-	-	-	-	17	17
Total liabilities	265	(18)	-	-	-	-	-	12	-	259	(5)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.

(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

(c) Transfers from Level 2 to Level 3 – forward contracts for the period of more than a year and less than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than a year.
Transfers from Level 3 to Level 2 – index forward contracts for the period of more than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than 5 years.

(d) Reclassified.

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 2016 (Audited)										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 31 December 2016	Unrealized profits (losses) in respect of instruments held at 31 December 2016
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(61)	10	130	(378)	(278)	-	-	-	1,426	14
Total bonds available for sale	2,003	(61)	10	130	(378)	(278)	-	-	-	1,426	14
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	174	17	-	-	-	-	-	35	(24)	202	32
Interest contracts	297	(4)	-	-	-	(163)	-	-	-	130	(160)
Foreign currency contracts	770	(767)	-	572	-	-	-	-	-	575	299
Share contracts	129	(72)	-	-	-	-	-	-	-	57	36
Commodities and other contracts	33	(30)	-	-	-	-	-	-	-	3	1
Total assets in respect of derivative instruments	1,403	(856)	-	572	-	(163)	-	35	(24)	967	208
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,406	(917)	10	702	(378)	(441)	-	35	(24)	2,393	222
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	53	110	-	-	-	-	-	37	(38)	162	159
Foreign currency contracts	199	46	-	-	-	-	-	-	-	245	56
Total liabilities in respect of derivative instruments	252	156	-	-	-	-	-	37	(38)	407	215
Total others	13	21	-	-	-	-	-	-	-	34	13
Total liabilities	265	177	-	-	-	-	-	37	(38)	441	228

(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).

(c) Transfers from Level 2 to Level 3 – forward contracts for the period of more than a year and less than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than a year.
Transfers from Level 3 to Level 2 – index forward contracts for the period of more than 5 years have been transferred, and as at the date of the financial statements, the period remaining to maturity is less than 5 years.

Note 15D – Quantitative information regarding items measured for fair value included in Level 3

Quantitative information regarding Level 3 fair value measurement

	31 March 2017 (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)	1,409	Discounting cash flows	Margin	125-190 bp	157 bp
			Probability of default	2.5%-3.8%	3.15%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	173	Discounting cash flows	Inflationary expectations	(0.01)%-0.22%	0.11%
	44	Discounting cash flows	Transaction counterparty	0.095%-100% (*)	2.17%
Interest contracts	129	Discounting cash flows	Transaction counterparty	0.095%-100% (*)	2.17%
Foreign currency contracts	122	Discounting cash flows	Inflationary expectations	(0.01)%-0.22%	0.11%
	1,003	Discounting cash flows	Transaction counterparty	0.095%-100% (*)	2.17%
Share contracts	101	Discounting cash flows	Transaction counterparty	0.095%-100% (*)	2.17%
Commodities contracts	3	Discounting cash flows	Transaction counterparty	0.095%-100% (*)	2.17%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	162	Discounting cash flows	Inflationary expectations	(0.01)%-0.22%	0.11%
Foreign currency contracts	263	Discounting cash flows	Inflationary expectations	(0.01)%-0.22%	0.11%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	968	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)

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

	31 March 2016 (Unaudited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed	1,938 (a)	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	94	Discounting cash flows	Inflationary expectations	(0.1)%-(0.1)%	(0.10%)
	108	Discounting cash flows	Transaction counterparty	0.57%-100% (*)	3.52%
Interest contracts	312	Discounting cash flows	Transaction counterparty	0.57%-100% (*)	3.52%
Foreign currency contracts	106	Discounting cash flows	Inflationary expectations	(0.1)%-(0.1)%	(0.10%)
	797	Discounting cash flows	Transaction counterparty	0.57%-100% (*)	3.52%
Share contracts	134	Discounting cash flows	Transaction counterparty	0.57%-100% (*)	3.52%
Commodities contracts	23	Discounting cash flows	Transaction counterparty	0.57%-100% (*)	3.52%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	61	Discounting cash flows	Inflationary expectations	(0.1)%-(0.1)%	(0.10%)
Foreign currency contracts	181	Discounting cash flows	Inflationary expectations	(0.1)%-(0.1)%	(0.10%)
B. Items measured for fair value on a non-recurring					
Collateral-contingent impaired debt	838	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 15D – Quantitative information regarding items measured for fair value included in Level 3 (cont'd)

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

	31 December 2016 (Audited)				
	Fair value	**Assessment technique**	**Unobservable inputs**	**Range**	**Average (3)**
A. Items measured for fair value on a recurring basis					
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed	1,426	Discounting cash flows	Margin	125-190 bp	157 bp
			Probability of default	2.5%-3.8%	3.15%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	162	Discounting cash flows	Inflationary expectations	0%-0.33%	0.17%
	40	Discounting cash flows	Transaction counterparty	0.2%-100% (*)	2.67%
Interest contracts	130	Discounting cash flows	Transaction counterparty	0.2%-100% (*)	2.67%
Foreign currency contracts	76	Discounting cash flows	Inflationary expectations	0%-0.33%	0.17%
	499	Discounting cash flows	Transaction counterparty	0.2%-100% (*)	2.67%
Share contracts	57	Discounting cash flows	Transaction counterparty	0.2%-100% (*)	2.67%
Commodities contracts	3	Discounting cash flows	Transaction counterparty	0.2%-100% (*)	2.67%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	162	Discounting cash flows	Inflationary expectations	0%-0.33%	0.17%
Foreign currency contracts	245	Discounting cash flows	Inflationary expectations	0%-0.33%	0.17%
B. Items measured for fair value on a non-recurring					
Collateral-contingent impaired debt	968	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding fair value measurement in Level 3

1. Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
   Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
2. Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
   Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
3. The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 16 – Events after the reporting period

Leumi Partners

On 7 May 2016, the subsidiary company Leumi Partners (hereinafter: "Leumi Partners") entered into an agreement in a non-binding Memorandum of Understanding[1] (hereinafter: "the Memorandum of Understanding") with Direct Insurance - Financial Investments Ltd. (hereinafter: "Financial Investments"), pursuant to which, subject to the completion of Financial Investments' conversion to a private company, Leumi Partners and other investors will purchase ordinary shares of Financial Investments in an amount of NIS 480 million by way of a private placement, with Leumi Partners' share being up to 10% of the issued and paid-up capital of Financial Investments, for consideration of NIS 150 million.

In addition, the investors will be allotted options, not listed for trading, exercisable at the date of completing the transaction and up to three years after the date of allotment, to purchase 5% of the issued and paid-up capital of Financial Investments on a fully diluted basis. The investors will be granted the right to request the conversion or redemption of its shares up to the end of the seventh year from the date of completing the transaction, and Financial Investments will make efforts to act in accordance with the request as aforesaid. However, insofar as it does not succeed in executing the redemption and/or the conversion, as aforesaid, there will not be any grounds for an action against it.

The execution of the transaction is contingent on conditions precedent and the amount of the transaction will be adjusted for dividends and capital movements in Financial Investments subsequent to 31 March 2017. In addition, it is provided that if the value of Financial Investments will be less than NIS 1.43 billion (adjusted for dividends and capital movements), the agreement may be nullified.

[1] The signing of a binding investment agreement is subject to recruiting the aforesaid investors and to completing due diligence checks of the investors in Financial Investments.

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Corporate Governance, Additional Details and Appendices

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Changes in the Board of Directors

There are currently 15 directors on the Board of Directors.

For further information regarding the changes in the composition of the Board of Directors which have occurred in the reporting period, see chapter "Changes in the Board of Directors" in the financial statements for 2016.

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 2016.

For further information regarding the termination of the term of office of the Chief Internal Auditor and the appointment of a new Chief Internal Auditor, see Chapter "Internal Auditor" in the financial statements for 2016.

The annual reports of the internal auditors of the subsidiaries in Israel for 2016 were submitted to the Audit Committee on 3 April 2017 and discussed in the committee on 6 April 2017.

The annual reports of the internal auditors of the overseas subsidiaries for 2016 were submitted to the Audit Committee on 3 April 2017 and discussed in the committee on 6 April 2017.

Control of the Bank

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 6 April 2017 (Ref no. 2017-01-038142). Also see Report of list of holders of the material means of control as of 31 March 2017 dated 6 April 2017 (Ref. 2017-01-038475).

Annual General Meeting and Election of Directors

Further to a resolution of the Board of Directors of the Bank of 14 March 2017, on 15 March 2017, an Immediate Report was published regarding the intention to convene an Annual General Meeting of shareholders of the Bank, with the agenda expected to include, among other things, the following topics: (1) the appointment of one external director pursuant to the provisions of Proper Conduct of Banking Management Directive 301 or one E.D. pursuant to the provisions of the Companies Law, 1999, which meets the competence conditions of an external director pursuant to Proper Conduct of Banking Management Directive 301, as will be determined by the Committee for the Appointment of Directors in Banking Corporations which was appointed pursuant to section 36A of the Banking Law (Licensing), 1981 and (2) the appointment of one ordinary director (i.e., with the status of "other director" – a director which is not and external director as stated in section 11D(2) to the Banking Ordinance) to the Board of Directors of the Bank.

For further details, see advance notice regarding an intention to convene an Annual General Meeting with a number of items on the agenda, including the appointment of directors, which was published on 15 March 2017 (Ref no. 2017-01-024366).

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 2016 – pages 367 – 371.

A 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. This chapter sets forth directives which came into effect during the period and directives which are expected to come into force, whose effect on the Bank is expected to be significant.

Legislation

Securities Law (Amendment no. 63), 2017 – Change in structure of the Stock Exchange

On 6 April 2017, an amendment to the said law was published. The main aim of the law is to convert the Stock Exchange into a for-profit corporation with an ownership structure segregated from access to trading, which is able to represent significant competition to stock exchanges in international markets and an alternative trading arena in Israel and abroad. For this purpose, the Stock Exchange will undergo a structural change with the approval of the courts, at the end of which it will change from a company limited by guarantee to a company with a share capital, to be divided between the members of the Stock Exchange.

The main points of the law are as follows:

- Access to trading will not necessitate ownership in the Stock Exchange, but rather it will be based on a contractual commitment between the Stock Exchange and the members.
- With effect from the date on which the court approves the structural change, the holdings of the existing Stock Exchange members, in excess of 5%, will be turned into treasury stock and will not accord any right, and there will be no obligation to sell them in excess of this percentage, for five years from the date of approval of the arrangement as aforesaid, or until the date of issue of the shares of the Tel Aviv Stock Exchange to the public and their registration for trading, whichever is earlier.
- The current members of the Stock Exchange will be entitled to the proceeds from the sale of their holdings, as aforesaid, only out of the shareholders' equity of the Stock Exchange. The current members of the Stock Exchange who sell their holdings will transfer to the Stock Exchange the full amount of the difference between the sale proceeds they receive and the value of the holdings sold by them, according to the shareholders' equity of the Stock Exchange according to its 2015 financial statements.
- No person may hold the means of control in the Stock Exchange at a rate of 5% or more, except according to a holding permit granted by the Securities Authority. In addition, no person may control the Stock Exchange, except under a permit granted by the Authority. In any event, a banking corporation and a Stock Exchange member will not be entitled to receive a holding or control permit in the Stock Exchange.
- The Stock Exchange will be able to distribute a dividend to the shareholders.
- Corporate governance – Most of the directors will be independent. It is provided that as long as the members of the Stock Exchange (the banks) hold more than 50%, most of the independent directors will appointed by and external committee (the Committee for Locating Candidates).
- The Minister of Finance will have authority to grant and suspend a Stock Exchange license. It is prohibited to offer trading services in securities through the Securities trading system, unless it is managed by the Stock Exchange.
- The Stock Exchange will publish the commissions which the Stock Exchange members collect from their customers in a comparable format, and the Stock Exchange members are required to report to it regarding these commissions, as well as any change therein.

As a consequence of the provisions of the law, the Bank will be required to sell its holdings in the Stock Exchange exceeding a rate of 5%, this, pursuant to the outline and time-tables stipulated for this purpose in the law.

On 11 May 2017, Knesset members, Orly Levy Abekasis and Sharren Haskel submitted an appeal to the High Court requesting a cancelation of the amendment to the law.

Draft letter of the Banking Supervision Department regarding operational streamlining of the banking system in Israel – Streamlining in the area of real estate

In January 2016, the Banking Supervision Department published a letter discussing operational streamlining of the banking system in Israel. The present draft, which was published on 17 May 2017, expands the aforesaid letter of the Bank of Israel.

As part of the aforesaid expansion, it is clarified that the Banking Supervision Department encourages the banking corporations, in addition to the streamlining of personnel expenses, to also examine possibilities of reducing costs of real estate and maintenance of headquarter and management units, including through a re-examination of their geographical location.

The Banking Supervision Department will approve reliefs for a banking corporation on the subject of capital adequacy in respect of the implementation of a streamlining program in the field of real estate, subject to various conditions set forth in the letter.

The relief in the measurement of regulatory capital will be reduced for the period of the streamlining program. At the end of this period, regulatory capital will be measured without the effect of the relief.

The effect of the streamlining encouragement letter of January 2017 will be extended by an additional year and a half until 30 June 2018. The extension of the effect of the letter will enable the banking corporation to (a) examine and execute a streamlining program in the field of real estate and (b) expand the streamlining program in the area of personnel.

Various legislative initiatives in the area of increasing competition in the retail credit market

In the recent period, a special emphasis was placed on legislation encouraging competition, mainly in all matters relating to the area of retail credit. This trend is reflected in the Law for Increasing Competition and the Reduction in Concentration in the banking market in Israel (Legislative Amendments), 2017 (as detailed in the financial statements for 2016), and in additional legislative provisions and initiatives which are intended to ease the entry of mew players to the market, inter alia, through an increase in the sources placed at their disposal, the provision of mitigating regulatory scales, and granting relief in connecting to payment and clearing systems.

The following is a number of examples of the provisions which are intended to encourage competition, as aforesaid:

- Supervision of Financial Services (Regulated Financial Services), 2016, which will come into force on 1 June 2017, and provides an overall framework for the regulation of the non-bank and non-institutional credit market in Israel;
- Proposed Supervision of Financial Services Law (Regulated Financial Services) (Amendment no. 4) (Operation of Credit Mediation System), 2017, pertaining to the establishment of an online system which mediates between lenders and borrowers (P2P);
- Proposed Regulation of Non-Bank Loans (Amendment no. 3), 2015 - "Fair Credit Law";
- Proposal to updated in the investment rules applicable to institutional entities.

The above changes, alongside the initiatives taken by the Bank of Israel, such as the construction of a credit database, the encouragement of the streamlining of the banking system and the promotion of regulations supporting the transition to digital banking via online channels, are expected to impact the banking market in Israel in the coming years.

Credit Rating

The table below shows the credit ratings of Israel and of the Bank on 20 May 2017:

	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 14 February 2017, Fitch credit rating agency affirmed the Bank's rating and the rating outlook.

On 19 March 2017, Moody's credit rating agency affirmed the Bank's rating and outlook.

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 31 March					
	2017			2016		
	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	**234,730**	**1,876**	**3.24**	238,460	1,510	2.56
Outside Israel	**23,872**	**228**	**3.88**	23,712	229	3.92
Total (i)	**258,602**	**2,104**	**3.29**	262,172	1,739	2.68
Credit to the Government						
In Israel	**628**	**5**	**3.22**	423	3	2.87
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**628**	**5**	**3.22**	423	3	2.87
Deposits in banks						
In Israel	**4,902**	**22**	**1.81**	9,968	11	0.44
Outside Israel	**665**	**7**	**4.28**	723	4	2.23
Total	**5,567**	**29**	**2.10**	10,691	15	0.56
Deposits in central banks						
In Israel	**45,276**	**12**	**0.11**	31,437	9	0.11
Outside Israel	**6,196**	**1**	**0.06**	4,970	1	0.08
Total	**51,472**	**13**	**0.10**	36,407	10	0.11
Securities borrowed or purchased under resale agreements						
In Israel	**1,099**	**-**	**-**	1,656	1	0.24
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,099**	**-**	**-**	1,656	1	0.24
Bonds available for sale (d)						
In Israel	**62,127**	**122**	**0.79**	53,029	109	0.82
Outside Israel	**6,010**	**35**	**2.35**	4,745	21	1.78
Total	**68,137**	**157**	**0.92**	57,774	130	0.90
Bonds for trading (d)						
In Israel	**9,301**	**9**	**0.39**	10,328	27	1.05
Outside Israel	**139**	**2**	**5.88**	25	-	-
Total	**9,440**	**11**	**0.47**	10,353	27	1.05
Total interest-bearing assets	**394,945**	**2,319**	**2.37**	379,476	1,925	2.04
Receivables for non-interest bearing credit cards	**6,134**			6,104		
Other non-interest bearing assets (e)	**34,066**			37,410		
Total assets	**440,699**	**2,319**	**-**	422,990	1,925	-
Total income-bearing assets attributable to activity outside Israel	**36,882**	**273**	**2.99**	34,175	255	3.02

See notes on page 208.

Part B – Average balances and interest rates – liabilities and equity

	For the three months ended 31 March					
	2017			2016		
	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	**238,330**	**(246)**	**(0.41)**	238,447	(146)	(0.25)
On demand	**97,052**	**(7)**	**(0.03)**	88,620	(3)	(0.01)
Fixed term	**141,278**	**(239)**	**(0.68)**	149,827	(143)	(0.38)
Outside Israel	**16,921**	**(32)**	**(0.76)**	16,556	(30)	(0.73)
On demand	**4,845**	**(5)**	**(0.41)**	3,679	(2)	(0.22)
Fixed term	**12,076**	**(27)**	**(0.90)**	12,877	(28)	(0.87)
Total	**255,251**	**(278)**	**(0.44)**	255,003	(176)	(0.28)
Deposits of the Government						
In Israel	**179**	**(1)**	**(2.25)**	149	(1)	(2.71)
Outside Israel	**722**	**-**	**-**	604	-	-
Total	**901**	**(1)**	**(0.44)**	753	(1)	(0.53)
Deposits from central banks						
In Israel	**15**	**-**	**-**	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**15**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**4,369**	**(4)**	**(0.37)**	4,558	(2)	(0.18)
Outside Israel	**3**	**-**	**-**	16	-	-
Total	**4,372**	**(4)**	**(0.37)**	4,574	(2)	(0.18)
Securities lent or sold under resale agreements						
In Israel	**381**	**-**	**-**	950	(1)	(0.42)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**381**	**-**	**-**	950	(1)	(0.42)
Bonds						
In Israel	**22,646**	**(163)**	**(2.91)**	24,313	(90)	(1.49)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**22,646**	**(163)**	**(2.91)**	24,313	(90)	(1.49)
Total interest-bearing liabilities	**283,566**	**(446)**	**(0.63)**	285,593	(270)	(0.38)
Non-interest bearing deposits of the public	**86,443**			76,212		
Payables for non-interest bearing credit	**5,721**			5,933		
Other non-interest bearing liabilities (f)	**27,697**			26,721		
Total liabilities	**403,427**	**(446)**		394,459	(270)	
Total capital means	**31,718**			28,531		
Total liabilities and capital means	**435,145**	**(446)**		422,990	(270)	
Interest margin		**1,873**	**1.74**		1,655	1.67
Net yield (g) **on income-bearing assets**						
In Israel	**358,063**	**1,632**	**1.84**	345,301	1,430	1.67
Outside Israel	**36,882**	**241**	**2.64**	34,175	225	2.66
Total	**394,945**	**1,873**	**1.91**	379,476	1,655	1.76
Total income-bearing liabilities attributable to activity outside Israel	**17,646**	**(32)**	**(0.73)**	17,176	(30)	(0.70)

See notes on page 208.

Part C – Average balances and interest rates – additional information on interest-bearing assets and liabilities attributed to activity in Israel

	For the three months ended 31 March					
	2017			2016		
	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	**48,510**	**285**	**2.37**	51,629	(28)	(0.22)
Total interest-bearing liabilities	**36,674**	**(186)**	**(2.04)**	42,774	(21)	(0.20)
Interest margin			**0.33**			(0.42)
Unlinked Israeli currency						
Total interest-bearing assets	**260,680**	**1,533**	**2.37**	243,409	1,457	2.42
Total interest-bearing liabilities	**189,575**	**(147)**	**(0.31)**	184,410	(147)	(0.32)
Interest margin			**2.06**			2.10
Foreign currency						
Total interest-bearing assets	**48,873**	**228**	**1.88**	50,263	241	1.93
Total interest-bearing liabilities	**39,671**	**(81)**	**(0.82)**	41,233	(72)	(0.70)
Interest margin			**1.06**			1.23
Total activity in Israel						
Total interest-bearing assets	**358,063**	**2,046**	**2.31**	345,301	1,670	1.95
Total interest-bearing liabilities	**265,920**	**(414)**	**(0.62)**	268,417	(240)	(0.36)
Interest margin			**1.69**			1.59

See notes on page 208.

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

	2017 compared to 2016		
	For the three months ended 31 March		
	Increase (decrease) due to change (h)		Net change
	Amount	Price	
	(NIS millions)		
Interest-bearing assets			
Credit to the public			
In Israel	**(30)**	**396**	**366**
Outside Israel	**2**	**(3)**	**(1)**
Total	**(28)**	**393**	**365**
Other interest-bearing assets			
In Israel	**23**	**(13)**	**10**
Outside Israel	**9**	**10**	**19**
Total	**32**	**(3)**	**29**
Total interest income	**4**	**390**	**394**
Interest-bearing liabilities			
Deposits of the public			
In Israel	**-**	**100**	**100**
Outside Israel	**1**	**1**	**2**
Total	**1**	**101**	**102**
Other interest-bearing liabilities			
In Israel	**(14)**	**88**	**74**
Outside Israel	**-**	**-**	**-**
Total	**(14)**	**88**	**74**
Total interest expenses	**(13)**	**189**	**176**

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 (154) million respectively (31 March 2016 – NIS 1,429 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 in an amount of NIS 111 million have been included in interest income from credit to the public (31 March 2016 - NIS 129 million).

(j) Reclassified.