

Condensed Financial Statements
at 30 June 2017
(unaudited)

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

BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES

Condensed Financial Statements at 30 June 2017

Table of contents

Page

Board of Directors and Management Report

A. General Review, Goals and Strategy

Summary of Financial Position	4
Forward-Looking Information in the Board of Directors and Management Report	7

B. Explanation and Analysis of the Results and Business Condition

Trends, Phenomena, Developments and Material Changes	9
Significant Developments in Income, Expenses and Other Comprehensive Income	12
Structure and Development of Assets, Liabilities, Capital and Capital Adequacy	21
Operating Segments	30
Major Investee Companies	39

C. Review of Risks

Exposure to Risk and Methods of Risk Management	40
Credit Risk	41
Market Risk	65
Liquidity Risk	74
Operational Risks	75
Other Risks	75

D. Critical Accounting Policy and Estimates, Controls and Procedures

Accounting Policy and Estimates on Critical Subjects	77
Controls and Procedures regarding Disclosure in the Financial Statements	78
Board of Directors	79

Certification	80
---------------	----

Financial Statements	
Report of the Review of the Joint Auditors	83
Consolidated Statement of Profit and Loss	84
Consolidated Statement of Comprehensive Income	85
Consolidated Balance Sheet	86
Consolidated Statement of Changes in Equity	87
Consolidated Statement of Cash Flows	92
Notes to the Consolidated Financial Statements	95
Corporate Governance, Additional Details and Appendices	218
A. Corporate Governance	
Changes in the Board of Directors	219
Internal Auditor	219
B. Additional details	
Control of the Bank	219
Appointments and Retirements and Organizational Structure	220
Legislation and Regulations relating to the Banking System	220
Credit Rating	223
C. Appendices	
Rates of Income and Expense	224

The Board of Directors and Management 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 for 2016. These reports should be read in conjunction with the Annual Report for 2016.

Summary of Financial Position

Below is the consolidated statement of profit and loss:

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Interest income	2,887	2,704	5,206	4,629	9,552
Interest expenses	722	670	1,168	940	2,026
Net interest income	2,165	2,034	4,038	3,689	7,526
Expenses (income) for credit losses	42	(154)	143	(277)	(125)
Net interest income after expenses for credit losses	2,123	2,188	3,895	3,966	7,651
Noninterest income					
Noninterest financing income	197	534	452	558	1,282
Commissions	1,007	989	2,025	1,977	3,967
Other income	16	15	30	35	159
Total noninterest income	1,220	1,538	2,507	2,570	5,408
Operating and other expenses					
Salaries and related expenses	1,276	1,546	2,567	2,788	5,422
Building and equipment maintenance and depreciation	398	425	833	819	1,697
Other expenses	346	384	670	738	1,461
Total operating and other expenses	2,020	2,355	4,070	4,345	8,580
Profit before tax	1,323	1,371	2,332	2,191	4,479
Tax expense	456	407	844	778	1,717
Profit after tax	867	964	1,488	1,413	2,762
Bank's share in profits of associate companies after tax	15	16	25	35	66
Net income					
Before attributing to non-controlling interests	882	980	1,513	1,448	2,828
Due to non-controlling interests	(6)	(10)	(15)	(19)	(37)
Due to shareholders of the Bank	876	970	1,498	1,429	2,791
Basic and diluted earnings per share due to shareholders of the Bank (in NIS):					
Basic net income	0.57	0.64	0.98	0.95	1.85
Diluted net income	0.57	0.64	0.98	0.95	1.84

Total assets under management of the Group (both balance sheet and off-balance sheet*) totaled NIS 1,337 billion at 30 June 2017, compared with NIS 1,262 billion at the end of 2016, an increase of 5.9%.

* 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 advisory services are provided.

Below is the consolidated balance sheet at:

	30 June 2017	30 June 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
Assets			
Cash and deposits with banks	69,352	57,881	74,757
Securities	78,470	84,872	77,201
Securities borrowed or purchased under agreements to resell	1,031	1,476	1,284
Loans to the public	267,786	269,602	265,450
Allowance for credit losses	(3,302)	(3,554)	(3,537)
Loans to the public, net	264,484	266,048	261,913
Loans to governments	619	480	642
Investments in associate companies	883	923	901
Buildings and equipment	2,954	3,042	3,147
Intangible assets and goodwill	16	17	17
Derivative assets	11,361	12,999	10,654
Other assets	7,797	8,662	8,087
Total assets	436,967	436,400	438,603
Liabilities and equity			
Deposits from the public	342,766	339,998	346,854
Deposits from banks	4,330	4,165	3,394
Deposits from governments	625	686	900
Securities lent or sold under repurchase agreements	244	789	539
Debentures, bonds and subordinated notes	22,337	24,151	22,640
Derivative liabilities	12,078	13,743	10,677
Other liabilities	21,694	22,455	21,885
Total liabilities	404,074	405,987	406,889
Non-controlling interests	372	349	367
Total equity due to shareholders of the Bank	32,521	30,064	31,347
Total equity	32,893	30,413	31,714
Total liabilities and equity	436,967	436,400	438,603

Below are the principal financial ratios (in %):

	30 June 2017	30 June 2016	31 December 2016
Loans to the public, net, to total balance sheet	60.5	61.0	59.7
Securities to total balance sheet	18.0	19.4	17.6
Deposits from the public to total balance sheet	78.4	77.9	79.1
Deposits from the public to total credit, net	129.6	127.8	132.4
Total capital to risk-weighted assets (a)	14.99	14.68	15.21
Common Equity Tier 1 capital to risk-weighted assets	11.21	10.40	11.15
Leverage ratio	6.93	6.51	6.77
Liquidity coverage ratio	127	127	132
Total equity due due to shareholders of the Bank (excluding non-controlling interests) to balance sheet	7.4	6.9	7.1
Net income to average capital (excluding non-controlling interests) (c)	9.6	10.1	9.3
Rate of tax provision on income before taxes	36.2	35.5	38.3
Expenses (income) for credit losses to credit to the public, net (c)	0.11	(0.21)	(0.05)
Of which: expenses in respect of collective allowance to loans to the public, net (c)	0.16	0.19	0.24
Expenses (income) for credit losses to total risk of loans to the public (c)	0.07	(0.14)	(0.03)
Interest income, net to total balance sheet (c)	1.86	1.70	1.72
Total income to total assets (b)(c)	3.02	2.89	2.95
Total income to total assets managed by the Group (b)(c)(d)	0.98	1.03	1.02
Total operating and other expenses to total balance sheet (c)	1.87	2.00	1.96
Total operating and other expenses to total assets managed by the Group (c)(d)	0.61	0.71	0.68
Net income to total average assets (c)(e)	0.69	0.67	0.64
Interest spread	1.84	1.77	1.75
Operating and other expenses to total income (b)	62.2	69.4	66.3
Noninterest income to operating and other expenses	61.6	59.1	63.0
Noninterest income to total income (b)	38.3	41.1	41.8

(a) Capital – including non-controlling interests and sundry adjustments.

(b) Total income – net interest income and noninterest income.

(c) On an annual basis.

(d) Including off balance sheet activity.

(e) Average assets include total income-producing and other balance sheet assets.

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

The Board of Directors and Management 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 occurrence of which is not certain and is not within the Bank's control.

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", "targets", "likely to affect", "scenarios", "stress scenarios", "assessment" 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 Board of Directors and Management 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 matters concerning human resources.

As a result of the inability to foresee with certainty that these forecasts will occur, 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 may 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 obligations under any law.

Main changes in the past period

Voluntary retirement plan

On 11 July 2017, the Board of Directors approved a new voluntary retirement plan.

The main points of the voluntary retirement plan which was approved by the Board of Directors (hereinafter: "the Plan") are as follows:

1. Pursuant to the Plan, 500-600 employees will be allowed to retire by early retirement.
2. The benefits offered, depending on the age and tenure of the employees, are mainly: (a) an early pension arrangement up to legal retirement age, for those who are eligible for non-contributory pension from the Bank who meet the parameters defined in the Plan or (b) enhanced compensation at a rate of 245% up to 265%, subject to the parameters defined in the Plan.
3. The early retirement will take place, as far as possible, by the end of 2017.
4. The total cost of the Plan is estimated by the Bank to be NIS 500-600 million (hereinafter: "the cost of the Efficiency Plan").

The main points of the accounting treatment are as follows:

1. The cost of the Efficiency Plan constitutes an actuarial loss which is charged to other comprehensive income in the second quarter of 2017.
2. In subsequent periods, the cost of the Plan will be amortized as part of the balance of "actuarial gains and losses" on a straight-line basis over the average remaining period of employment of the employees who are active in the Plan.

The impact of the efficiency plan on the capital adequacy is estimated at 0.2%, which will be deducted gradually from the capital adequacy over five years.

Some of the information presented in this chapter is "forward-looking information". For the meaning of this term, see the chapter "Forward-Looking Information"

Transaction for sale of property

On 18 June 2017, the Board of Directors of the Bank approved entering into an agreement with Canada Acrob'City Limited Partnership for the sale of a property on the corner of Yehuda Halevi Street and Herzl Street in Tel Aviv, currently used as the Bank's Principal Branch Tel Aviv. The sale proceeds total NIS 277 million and the expected gain on completion of the transaction is NIS 260 million, before tax.

PEPPER

In June 2017, Leumi publicly launched PEPPER, a mobile-only digital banking platform. This follows the launch in the first quarter, of PEPPER PAY, a payment solution for customers of all banks.

This is a quantum leap in the groundwork of digital banking in Israel which will be conducted via mobile. The new apps provide a personal, simple and convenient "any-time, any-place" customer experience, tailored to customer needs, in a friendly manner, with a unique design, and no current account charges.

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy¹

Growth in the Israeli economy and the business sector, in particular, continued in the first half of 2017. The state of the economy index, published by the Bank of Israel, increased in the first half of the year by 1.9% in real terms (3.9% annualized), while in the 12 months ended June 2017, the increase was 4.4%.

The global economy

In July 2017, the International Monetary Fund (IMF) updated the forecast for global growth in 2017 to 3.5%, similar to the forecast for April, compared with 3.2% in 2016. On the other hand, the growth rate forecast in the United States in 2017 was revised downward (from 2.3% to 2.1%), against the background of the IMF's assessments that the budgetary policy would be less expansionary, compared with the previous assessment. In the Euro Area, the growth forecast for 2017 was revised upward (from 1.7% to 1.9%) against a background of positive data as regards economic activity, which was published in late 2016 and at the beginning of 2017.

The State Budget and its Financing

During the first half of the year, the Government's budget deficit totaled NIS 9.0 billion, compared with NIS 3.1 billion in the corresponding period last year, with an annual deficit of NIS 36.6 billion, which is 2.9% of GDP, planned in the budget for the whole of 2017. On the other hand, the accumulated deficit in the past 12 months ended June 2017 according to the Treasury estimates totaled 2.5% of GDP. However, offsetting the change in the distribution of expenses of the Ministry of Defense during the year, which resulted in a significant increase in the expenditure in January–June, the estimate of the accumulated deficit in the past year amounts to 2.3% of GDP.

On 18 April 2017, the Treasury announced the "Net for the Family" plan, which includes tax benefits for working families. The cost of the plan is estimated at 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 the first half of 2017 totaled \$ 5.3 billion, a decrease of \$ 0.5 billion, compared with the deficit in the first half last year. The reduction in the trade deficit derives from a larger increase in exports, compared with imports.

In the months of January–May 2017, direct investments in Israel by foreign residents, via the banking system, totaled \$ 2.7 billion, while financial investments of foreign residents totaled \$ 3.2 billion. On the other hand, total investments of Israeli residents abroad (direct investments via the banks in Israel and financial investments) totaled \$ 5.7 billion, such that there is just a small difference between total investments incoming to Israel and total outgoing investments in foreign currency.

Exchange Rate and Foreign Currency Reserves

In the first six months of the year, the shekel appreciated against the dollar by a rate of 9.1%, against the pound sterling by 3.9%, and against the euro, by 1.4%.

Foreign currency balances of the Bank of Israel at the end of June 2017 totaled \$ 108.7 billion, compared with \$ 98.4 billion at the end of 2016.

In the first half of 2017, foreign currency purchases by the Bank of Israel, as part of a program of purchases to offset the effect of natural gas production on the exchange rate, totaled \$ 0.89 billion. In total, the Bank of Israel purchased foreign currency totaling \$ 5.89 billion during this period.

Inflation and Monetary Policy

The consumer price index ("published for the month") stood at an identical level in June 2017 to its level in December 2016, while in the past 12 months ended June 2017, the index fell by 0.2%. This rate is below the lower limit of the Government's price stability target range of 1% - 3% and reflects a very low inflationary environment.

The consumer price index ("last published CPI") rose by 0.7% in the first half of the year.

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

During the first half of the year, there was no change in the Bank of Israel interest rate, the rate which stood at 0.1%, a level retained in the interest announcement published at the beginning of July 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 increased in the first half of the year by 0.5%, as a result of price increases in the second quarter following a fall in prices in the first quarter.

Average daily trading volumes of shares and convertible securities increased in the first half of 2017 by 21.0%, compared with the average for 2016, and totaled NIS 1.54 billion.

The Government bond market was characterized during the first six months of the year by price increases. The price of CPI-linked Government bonds rose by 0.2%, while unlinked Government bonds increased by 1.3% (the fixed interest bond index rose by 1.5% while the variable interest ("*Gilon*") bond index recorded a slight increase of 0.4%).

In the CPI-linked non-government debenture index (corporate bonds), there were price increases of some 3.1% in January-June period, continuing 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 May 2017 totaled NIS 3,498 billion, an increase of 1.6% since the beginning of the year. The increase encompassed most of the components of the financial asset portfolio (other than foreign currency-linked). The proportion of the shares (in Israel and abroad) in monetary asset portfolio of the Israeli public reached 22.5% at the end of May 2017, compared with 22.4% at the end of December 2016.

Material changes in the financial statement items

Net income due to shareholders (hereinafter: "net income") in the first half of 2017 (hereinafter - "the reported period") totaled NIS 1,498 million, compared with NIS 1,429 million in the corresponding period last year. It should be noted that net income last year was affected by a net amount of tax of NIS 235 million from a number of material non-recurring items – income from the sale of Visa Europe, one-time salary expenses, income tax due to liquidation proceedings and sale of subsidiaries and a decrease in deferred tax due a fall in the corporate tax rate.

Return on equity in the reported period stood at a rate of 9.6%, compared with 10.1% for the first quarter of last year. The return on equity in the corresponding period last year, net of the non-recurring items as noted above, stands at 8.4%. The improvement in the return, net of the non-recurring items last year, derives from an increase in interest income, an increase in noninterest financing income, an increase in commissions and a decrease in expenses, mainly salary expenses.

Return on equity for the second quarter of the year was 11.3%, compared with a rate of 8.1% in the first quarter of the year. Return on equity for the corresponding quarter last year was 13.7%. Return on equity for the corresponding quarter last year, net of the non-recurring items as noted above (except for a decrease in the tax rate, the impact of which was recorded in the first quarter last year) was 9.1%

The ratio of Common Equity Tier 1 capital to risk components was 11.21% at 30 June 2017, compared with 11.15% at 31 December 2016. For further details, see Note 9B.

On 14 August 2017, the Board of Directors of the Bank approved the distribution of a dividend of 20% of the net income for the quarter, totaling NIS 175 million. The cumulative dividend for the first half of the year was NIS 300 million.

Net interest income in the first half of the year increased by NIS 349 million, an increase of 9.5%, compared with the corresponding six months last year. The increase in net interest income arises from an increase of 2.4% in the average balance of interest-bearing financial assets (loans to the public, securities and deposits in banks) and from a moderate increase in interest gaps. The increase was also influenced by the fact that the increase in the CPI for the first half of the year was 0.7%, compared with a negative CPI of 0.4% in the corresponding six months last year.

Expenses for credit losses for the first half of the year reflects a rate of expense of 0.11% of loans to the public, net, compared with income of 0.21% in the corresponding six months last year. The income in the corresponding six months last year arose mainly from large collections.

The rate of expense in respect of credit losses in the second quarter of 2017 stood at 0.06%.

Noninterest financing income was NIS 452 million, compared with NIS 558 million in the corresponding period last year. Noninterest financing income in the corresponding period last year includes income of NIS 378 million from the sale of Visa Europe. Excluding income from the sale of Visa Europe, noninterest financing income increased by NIS 272 million, mainly from activity in derivatives and exchange rate differences.

Operating commissions increased by NIS 48 million in the first half of the year, mainly in light of an increase in activity turnover in credit cards and securities.

Operating expenses fell by NIS 275 million in the first half of the year, a decrease of 6.3%, compared with the corresponding six months last year. Most of the decrease is in salary expenses, which fell by NIS 221 million, a decrease of 7.9%. Excluding the non-recurring salary expenses, as noted below, salary expenses fell by 6.3%. Most of the decrease derives from a decrease in the number of employees against a background of the efficiency procedures in the Bank. In addition, other expenses decreased by NIS 68 million, compared with the corresponding period last year six months last year, a decrease of 9.2%.

Tax expenses totaled NIS 844 million, compared with NIS 778 million last year. The tax expense last year was affected by the recording of income totaling NIS 174 million in respect of liquidations proceedings and the sale of subsidiaries and tax expenses totaling NIS 122 million due to a decrease in the balance of deferred taxes last year as a result of a fall in the corporate tax rate.

Basic net income per share due to shareholders in the reported period totaled NIS 0.98, compared with NIS 0.95 in the corresponding period last year.

Significant Developments in Income, Expenses and Other Comprehensive Income

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

	For the three months ended 30 June			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net interest income	2,165	2,034	131	6.4
Expenses (income) for credit losses	42	(154)	196	+
Noninterest income	1,220	1,538	(318)	(20.7)
Operating and other expenses	2,020	2,355	(335)	(14.2)
Profit before tax	1,323	1,371	(48)	(3.5)
Tax expense	456	407	49	12.0
Profit after tax	867	964	(97)	(10.1)
Bank's share in profits of associate companies	15	16	(1)	(6.3)
Net income due to non-controlling interests	(6)	(10)	4	40.0
Net income due to shareholders of the Bank	876	970	(94)	(9.7)
Return on equity (in percentages)	11.3	13.7		
Net income per share (NIS)	0.57	0.64		

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

	For the six months ended 30 June			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net interest income	4,038	3,689	349	9.5
Expenses (income) for credit losses	143	(277)	420	+
Noninterest income	2,507	2,570	(63)	(2.5)
Operating and other expenses	4,070	4,345	(275)	(6.3)
Profit before tax	2,332	2,191	141	6.4
Tax expense	844	778	66	8.5
Profit after tax	1,488	1,413	75	5.3
Bank's share in profits of associate companies	25	35	(10)	(28.6)
Net income due to non-controlling interests	(15)	(19)	4	21.1
Net income due to shareholders of the Bank	1,498	1,429	69	4.8
Return on equity (in percentages)	9.6	10.1		
Basic earnings per share (NIS)	0.98	0.95		

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

	2017		2016			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
NIS millions						
Net interest income	2,165	1,873	1,867	1,970	2,034	1,655
Expenses (income) for credit losses	42	101	46	106	(154)	(123)
Noninterest income	1,220	1,287	1,324	1,514	1,538	1,032
Other operating expenses	2,020	2,050	2,280	1,955	2,355	1,990
Profit before tax	1,323	1,009	865	1,423	1,371	820
Tax expense	456	388	425	514	407	371
Profit after tax	867	621	440	909	964	449
The Bank's share in profits of associate companies	15	10	10	21	16	19
Net income due to non-controlling interests	(6)	(9)	(7)	(11)	(10)	(9)
Net income due to shareholders of the Bank	876	622	443	919	970	459
Return on equity (in percentages)	11.3	8.1	5.8	12.7	13.7	6.6
Basic earnings per share (NIS)	0.57	0.41	0.29	0.60	0.64	0.31

Net interest income

Net interest income of Leumi Group in the first half of the year totaled NIS 4,038 million, compared with NIS 3,689 million in the corresponding period last year, an increase of 9.5%.

The increase in net interest income derives from an increase in interest-bearing assets and a moderate increase in interest gaps. The increase was also influenced by the fact an increase in the CPI for the first half of the year was 0.7%, compared with a negative CPI of 0.4% in the corresponding period last year.

Net interest income in the second quarter of 2017 was NIS 2,165 million, compared with NIS 2,034 million in the corresponding period last year, an increase of 6.4%. The increase in net interest income derives from an increase in interest-bearing assets, and a moderate increase in the interest gap. The increase is also affected by the fact that the increase in the CPI for the second quarter of the year was 0.9%, compared with the increase of 0.5% in the corresponding period last year.

The ratio of net interest income to the average balance of interest-bearing assets (the net yield on interest-bearing assets) is 2.06%, compared with 1.93% in the corresponding period last year.

The overall **interest gap** in the reported period is 1.84%, compared with a gap of 1.77% in the corresponding period last year.

The interest gaps in activity by segment were as follows:

In the CPI-linked segment, the interest gap in the reported period was 1.03%, compared with 0.51% in the corresponding period last year. In the foreign currency segment, the interest gap was 1.07%, compared with 1.19% in the corresponding period last year. In the unlinked shekel segment, the interest gap was 2.08%, 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 for credit losses

	For the six months ended 30 June			
	2017	2016	Change	
	NIS millions		NIS millions	%
Individual income for credit losses	(71)	(529)	458	86.6
Collective expense for credit losses	214	252	(38)	(15.1)
Total expense (income) for credit losses	143	(277)	420	+
Percentage ratios:				
Percentage of individual income for credit losses to total loans to the public, net	(0.05)	(0.40)		
Percentage of collective expense for credit losses to total loans to the public, net	0.16	0.19		
Percentage of total expense (income) for credit losses to total loans to the public, net	0.11	(0.21)		

	For the six months ended 30 June					
	2017		2016			
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Individual income for credit losses	(40)	(31)	(117)	(111)	(254)	(275)
Collective expense for credit losses	82	132	163	217	100	152
Total expense (income) for credit losses	42	101	46	106	(154)	(123)
Percentage ratios:						
Percentage of individual income for credit losses to total loans to the public, net	(0.06)	(0.05)	(0.18)	(0.17)	(0.38)	(0.42)
Percentage of collective expense for credit losses to total loans to the public, net	0.12	0.20	0.25	0.33	0.15	0.23
Percentage of total expense (income) for credit losses to total loans to the public, net	0.06	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 six months ended 30 June						
	2017	2016		Change		
	NIS millions			NIS millions	%	
Noninterest financing income	452	558		(106)	(19.0)	
Commissions	2,025	1,977		48	2.4	
Other income	30	35		(5)	(14.3)	
Total	2,507	2,570		(63)	(2.5)	

	2017	2016				
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions					
Noninterest financing income	197	255	225	499	534	24
Commissions	1,007	1,018	994	996	989	988
Other income	16	14	105	19	15	20
Total	1,220	1,287	1,324	1,514	1,538	1,032

The ratio of noninterest income to total income (i.e. net interest income and noninterest income) was 38.3%, compared with 41.1% in the corresponding period last year and 41.8% in the whole of 2016.

Below are details of noninterest financing income:

	For the six months ended			
	30 June	30 June		
	2017	2016	Change	
	NIS millions			%
Net gains (losses) in respect of derivatives and net exchange rate differences	511	(146)	657	+
Gains from sale of available-for-sale debentures, net	35	59	(24)	(40.7)
Gains (losses) from investments in shares including dividends	88	510	(422)	(82.7)
Net gains in respect of loans sold	-	14	(14)	(100.0)
Realized and unrealized gains (losses) and adjustments of debentures and shares available for trade to fair value, net (a)	(182)	121	(303)	-
Total	452	558	(106)	(19.0)

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

In the second quarter of 2016, income was recorded from the sale of Visa Europe totaling NIS 378 million.

Excluding the income from the sale of Visa Europe, noninterest financing income increased by NIS 272 million, mainly due to activity in derivatives and exchange rate differences.

	2017		2016			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Net gains (losses) in respect of derivatives and net exchange rate differences	121	390	372	261	(92)	(54)
Gains from sale of available-for-sale debentures, net	30	5	12	286	50	9
Gains (losses) from investments in shares including dividends (a)	42	46	(28)	28	427	83
Net gains (losses) in respect of loans sold	-	-	(1)	31	14	-
Realized and unrealized gains (losses) from adjustments of debentures and shares available for trade to fair value, net (b)	4	(186)	(130)	(107)	135	(14)
Total	197	255	225	499	534	24

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

The following is a breakdown of commissions:

	For the six months ended			
	30 June	30 June		
	2017	2016	Change	
	NIS million		NIS million	%
Account management	349	357	(8)	(2.2)
Activity in certain securities and derivative instruments	332	306	26	8.5
Credit cards	520	498	22	4.4
Treatment of credit	91	93	(2)	(2.2)
Commissions for distribution of financial products	147	138	9	6.5
Conversion differences	161	164	(3)	(1.8)
Commissions from financing transactions	268	268	-	-
Other commissions	157	153	4	2.6
Total commissions	2,025	1,977	48	2.4

The increase in commissions of 2.4% in the first half of 2017, compared with the corresponding period last year six months last year, was largely due an increase in turnover of credit card activity, in securities and in mutual funds.

	2017		2016			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Account management	171	178	178	180	178	179
Activity in certain securities and derivative instruments	163	169	143	143	144	162
Credit cards	265	255	257	268	258	240
Treatment of credit	42	49	42	42	45	48
Commissions for distribution of financial products	74	73	77	72	70	68
Conversion differences	77	84	81	82	82	82
Commissions from financing transactions	133	135	136	130	136	132
Other commissions	82	75	80	79	76	77
Total commissions	1,007	1,018	994	996	989	988

Below are details of other income:

	For the six months ended 30 June			
	2017	2016	Change	
	NIS millions			
				%
Profits from severance pay fund	19	5	14	+
Other income including sale of buildings and equipment	11	30	(19)	(63.3)
Total	30	35	(5)	(14.3)

	2017		2016			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Profits from severance pay fund	12	7	7	15	5	-
Other income including sale of buildings and equipment	4	7	98	4	10	20
Total	16	14	105	19	15	20

Operating and other expenses

	For the six months ended			
	30 June	30 June		
	2017	2016	Change	
	NIS millions			%
Salaries and related expenses	2,567	2,788	(221)	(7.9)
Depreciation and amortization	342	320	22	6.9
Buildings and equipment maintenance expenses	491	499	(8)	(1.6)
Other expenses	670	738	(68)	(9.2)
Total operating and other expenses	4,070	4,345	(275)	(6.3)

	2017		2016			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Salaries and related expenses	1,276	1,291	1,280	1,354	1,546	1,242
Depreciation and amortization	159	183	171	172	175	145
Buildings and equipment maintenance expenses	239	252	272	263	250	249
Other expenses	346	324	557	166	384	354
Total operating and other expenses	2,020	2,050	2,280	1,955	2,355	1,990

Salary expenses

	For the six months ended			
	30 June	30 June		
	2017	2016	Change	
	NIS millions		NIS millions	%
Salary and related expenses	2,038	2,217	(179)	(8.1)
Pension, severance pay and voluntary retirement expenses, net of fund profits	486	478	8	1.7
Total salary expenses before non-recurring bonuses	2,524	2,695	(171)	(6.3)
Non-recurring bonus and cancelation of long-service bonuses last year	43	93	(50)	(53.8)
Total salary expenses	2,567	2,788	(221)	(7.9)

Total current salary expenses decreased by NIS 171 million, reflecting a decrease of 6.3%. The decrease derives from the number of employees.

	2017		2016			
	2nd	1st	4th	3rd	2nd	1st
	quarter	quarter	quarter	quarter	quarter	quarter
	NIS millions					
Salary and related expenses	1,036	1,002	1,052	1,105	1,140	1,077
Yield bonus						
Pension, severance pay and voluntary retirement expenses, net of fund profits	240	246	228	249	251	227
Regulatory changes						
Total salary expenses before non-recurring bonuses	1,276	1,248	1,280	1,354	1,391	1,304
Non-recurring bonus and effect of collective agreements	-	43	43	-	155	(62)
Effect of collective agreements						
Total salary expenses	1,276	1,291	1,280	1,354	1,546	1,242

For further information, see Note 8.

Salary and related expenses account for 63.1% of total operating expenses, compared with 64.2% in the corresponding period last year, and 63.2% in the whole of 2016.

Operating and other expenses (excluding salary)

Operating and other expenses, excluding salary, totaled NIS 1,503 million in the reported period, compared with NIS 1,557 million in the corresponding period last year, a decrease of 3.5%.

Operating expenses constitute 62.2% of total income, compared with 69.4% in the corresponding period last year, and 66.3% in the whole of 2016.

Total operating and other expenses (in annual terms) constitute 1.87% of the total balance sheet, compared with 2.00% in the corresponding period last year and 1.96% in the whole of 2016.

Tax expense

The tax expense of Leumi Group in the reported period was NIS 844 million, compared with NIS 778 million in the corresponding period last year. The tax expense rate in the reported period was 36.2% of the pre-tax profit, compared with 35.5% in the corresponding period last year, an increase of 0.7 percentage points. The tax rate in the reported period is higher than the statutory tax rate (35.0%), mainly due the recording of tax expenses for expenses not recognized for tax purposes. The tax rate in the corresponding period last year was lower than the statutory tax rate (35.9%), mainly as a result of recording tax revenue (net) of NIS 174 million due to liquidation processes and the sale of subsidiaries, and on the other hand, the recording of tax expenses of NIS 122 million due to a decrease in the net balance of deferred taxes, as a result of decrease in the Corporate Tax Rate from 26.5% to 25% as of 1 January 2016.

Below is a condensed statement of other comprehensive income:

Other comprehensive income before attribution to non-controlling interests							
	Adjustments for presentation of available-for- sale securities at fair value	Translation adjustments (a), net after effect of hedges (b)	The Bank's share in other comprehensive income of associate companies	Adjustments in respect of employee benefits (b)	Total	Other comprehensive loss attributed to non- controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
(NIS millions)							
Balance at 31 December 2015							
(audited)	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in period	371	(12)	(1)	(1,126)	(768)	-	(768)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Balance at 31 December 2016							
(audited)	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change in period	(5)	(113)	(7)	(85)	(210)	-	(210)
Balance at 30 June 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)

Other comprehensive income before attribution to non-controlling interests							
	Adjustments for presentation of available-for- sale securities at fair value	Translation adjustments (a), net after effect of hedges (b)	The Bank's share in other comprehensive income of associate companies	Adjustments in respect of employee benefits	Total	Other comprehensive loss attributed to non- controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
(NIS millions)							
Balance at 31 March 2016	163	(111)	29	(2,082)	(2,001)	(4)	(1,997)
Net change in period	275	32	8	(534)	(219)	-	(219)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Balance at 31 March 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Net change in period	(16)	(64)	1	(417)	(496)	-	(496)
Balance at 30 June 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)

Other comprehensive income before attribution to non-controlling interests							
	Adjustments for presentation of available-for- sale securities	Translation adjustments (a), net after effect of hedges (b)	The Bank's share in other comprehensive income of associate companies	Adjustments in respect of employee benefits (b)	Total	Other comprehensive loss attributed to non- controlling interests	Other comprehensive income (loss) 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 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 which, from the nature of their activity differ from the functional currency of the Bank.
- (b) Net gains (losses) in respect of net hedging of investment in foreign currency.
- (c) The adjustments in respect of employee benefits in the second quarter of 2017 include an estimate of the cost of the voluntary retirement plan (NIS 600 million) published in July 2017.

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

Total Assets of the Leumi Group on 30 June 2017 totaled NIS 437.0 billion, compared with NIS 438.6 billion at the end of 2016, a decrease of 0.4%, and compared with June 2016, an increase of 0.1%.

Of the Group's total assets, the value of assets denominated in or linked to foreign currency was NIS 81.2 billion, some 18.6% of total assets. In the first half of 2017, the shekel depreciated against the U.S. dollar by 9.1% and against the euro by 1.4%. The change in the exchange rates of the shekel against foreign currencies contributed to a decrease of 1.6% in the Group's total assets, so that canceling the effect of the devaluation of the shekel, the total balance sheet increased to NIS 443.9 billion.

Total assets under Group management – The total balance sheet and customers' securities portfolios, and provident funds and supplementary training funds, for which operational management and deposit management services are provided, totaled NIS 1,337 billion, compared with NIS 1,262 billion at the end of 2016 (\$ 382 billion and \$ 328 billion, respectively).

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

	30 June 2017	31 December 2016	Change from December 2016	Change from June 2016
	NIS millions		%	
Total assets	436,967	438,603	(0.4)	0.1
Cash and deposits with banks	69,352	74,757	(7.2)	19.8
Securities	78,470	77,201	1.6	(7.5)
Loans to the public, net	264,484	261,913	1.0	(0.6)
Buildings and equipment	2,954	3,147	(6.1)	(2.9)
Deposits from the public	342,766	346,854	(1.2)	0.8
Deposits from banks	4,330	3,394	27.6	4.0
Debentures, notes and subordinated notes	22,337	22,640	(1.3)	(7.5)
Equity due to shareholders of the Bank	32,521	31,347	3.7	8.2

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

	30 June 2017	31 December 2016	Change from December 2016	Change from June 2016
	NIS millions		%	
Documentary credits, net	1,066	1,418	(24.8)	(39.7)
Guarantees to secure credit, net	5,217	5,730	(9.0)	(10.4)
Guarantees to purchasers of apartments, net	19,461	19,538	(0.4)	(0.1)
Other guarantees and liabilities, net	15,214	15,623	(2.6)	(7.4)
Derivatives (a)	621,938	644,454	(3.5)	(6.7)
Options of all types	126,275	91,986	37.3	(1.6)

(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:

	30 June 2017	31 December 2016	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	641,398	613,213	28,185	4.6
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	48,403	47,636	767	1.6
Provident and pension funds	108,666	78,189	30,477	39.0
Supplementary training funds	101,630	84,774	16,856	19.9

(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) In Israel, the Group 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 advisory services from Leumi.

Loans to the public, net

Loans to the public in the Leumi Group at 30 June 2017 totaled NIS 264.5 billion, compared with NIS 261.9 billion at the end of 2016, an increase of 1.0%.

The change in the exchange rates of the shekel against all foreign currencies contributed to a decrease of 1.1% in total loans to the public. Excluding the effect of the change, there was an increase of 2.1% in total loans to the public.

As well as extending loans to the public, the Group invests in the securities of companies, totaling NIS 13,187 million at 30 June 2017, compared with NIS 13,488 million at the end of 2016. These investments also involve credit risk.

Loans to the public in unlinked shekels, at 30 June 2016, constituted 69.7% of total credit, while at 31 December 2016, it constituted 68.6% of total loans. Against the increase in the weight of the unlinked credit, there was a decrease, mainly in CPI-linked loans which, at 30 June 2017 constituted 16.4% of total credit, compared with 16.9% at 31 December 2016.

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

	30 June 2017	31 December 2016	Change		Change excluding the effect of exchange rate differences
	NIS millions		NIS millions	%	%
Individuals - housing loans	78,038	78,658	(620)	(0.8)	(0.8)
Individuals - other	38,501	37,768	733	1.9	2.2
Construction and real estate	50,053	48,300	1,754	3.6	5.2
Commercial	26,871	26,974	(103)	(0.4)	1.0
Industry	18,356	18,048	308	1.7	4.4
Other	52,664	52,165	499	1.0	0.2
Total	264,484	261,913	2,571	1.0	2.1

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

Problem debts

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

	30 June 2017			31 December 2016		
	Off-balance			Off-balance		
	Balance sheet	sheet	Total	Balance sheet	sheet	Total
	NIS millions			NIS milions		
Impaired debts	2,825	149	2,974	2,942	176	3,118
Substandard debts	792	81	873	1,013	74	1,087
Special mention debts	2,357	1,229	3,586	2,233	1,190	3,423
Total	5,974	1,459	7,433	6,188	1,440	7,628

Problem credit risk:

	30 June 2017	31 December 2016
	NIS millions	
Commercial problem credit risk	7,623	7,984
Retail problem credit risk	1,337	1,427
Total	8,960	9,411
Balance of allowance for credit losses	1,527	1,783
Problem credit after allowance for credit losses	7,433	7,628

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

Securities

The Group's investments in securities at 30 June 2017 totaled NIS 78.5 billion, compared with NIS 77.2 billion at the end of 2016, an increase of 1.6%.

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

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 maturity 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 securities portfolio, while 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 maturity 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 adjusted cost presented as a separate item in shareholders' equity in other comprehensive income, 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 maturity are presented in the balance sheet at their cost.

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

For additional information on reclassification in a held to maturity portfolio, see chapter on Note 1A.3.

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

	30 June 2017				31 December 2016			
	Securities held to maturity	Securities available for sale ^(a)	Trading securities ^(b)	Total	Securities held to maturity	Securities available for sale ^(a)	Trading securities ^(b)	Total
	NIS millions				NIS millions			
Debentures of:								
Government of Israel	35	36,893	7,093	44,021	-	35,409	5,091	40,500
Foreign governments	340	8,648	759	9,747	-	11,929	2,458	14,387
Financial institutions in Israel	-	24	254	278	-	23	159	182
Foreign financial institutions(c)	-	8,657	435	9,092	-	7,460	104	7,564
Asset-backed (ABS) or mortgage-backed (MBS)	424	8,105	275	8,804	-	9,749	280	10,029
Others in Israel	-	282	194	476	-	296	132	428
Others abroad	-	2,429	429	2,858	-	1,882	286	2,168
Shares and mutual funds	-	2,671	523	3,194	-	1,942	1	1,943
Total securities	799	67,709	9,962	78,470	-	68,690	8,511	77,201

(a) Including unrealized profits (losses) from adjustments to fair value totaling NIS 121 million which were recorded in other comprehensive income (31 December 2016 – NIS (92) million).

(b) Including unrealized gains (losses) from adjustments to fair value totaling NIS 2 million which were recorded in profit and loss (31 December 2016 – NIS 9 million).

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

At 30 June 2017, 86.3% of the Group's nostro portfolio was classified as available-for-sale securities and 12.7% as the trading portfolio. 4.1% of the value of the securities represents investments in shares of companies that are not presented on an equity basis, but according to the cost or to 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 half of 2017, there was a decrease in other comprehensive income in respect of available-for-sale securities totaling NIS 3 million (before the effect of tax) compared with an increase totaling NIS 556 million (before the effect of tax) in the corresponding period last year.
2. Net gains from the sale of available-for-sale debentures totaling NIS 35 million were recorded to profit and loss, compared with gains of NIS 59 million in the corresponding period last year, and net gains from investments in shares totaling NIS 78 million, compared with a total of NIS 505 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, at 30 June 2017, totaled a negative amount of NIS 91 million (after the effect of tax), compared with a negative amount of 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 capital, see Note 5.

Trading portfolio

On 30 June 2017, there was NIS 9.4 billion in debentures in the trading portfolio, compared with NIS 8.5 billion of debentures on 31 December 2016. At 30 June 2017, the trading portfolio constitutes 12.7% of the Group's total *nostro* portfolio, compared with 11.0% on 31 December 2016.

In respect of trading debentures, realized and unrealized losses totaling NIS 174 million were recorded in the statement of profit and loss, compared with gains totaling NIS 153 million in the corresponding period last year. The losses in the first half of 2017 derive from exchange rate differences recorded to the securities in the trading portfolio, and they are offset against profits from exchange rate differences.

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

Investments in foreign-issued securities

a. Investments in foreign-issued asset-backed securities

The Group's asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed), all of which is rated investment grade at 30 June 2017, totaled NIS 8.4 billion (\$ 2.4 billion), compared with NIS 10.0 billion at the end of 2016. Of the aforementioned portfolio at 30 June 2017, NIS 8.1 billion (\$ 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 at 30 June 2017 includes an investment in mortgage-backed debentures totaling NIS 6.5 billion. 93% 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.

At 30 June 2017, the accumulated net decrease in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was NIS 65 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 NIS 1,371 million.

The projected term to maturity for the entire mortgage-backed securities portfolio is an average of 5.03 years. In addition to mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities backed by assets other than mortgages. Of these, CLO-type debentures amount to NIS 1.6 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.5 years on average.

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

b. Investments in foreign-issued non-asset backed securities

The Group's securities portfolio at 30 June 2017 includes NIS 26.1 billion (\$ 7.5 billion) of non-asset-backed securities issued abroad. Of these securities, NIS 23.5 billion (\$ 6.7 billion) are classified in the available-for-sale portfolio, with the balance in the trading portfolio and the held-to-maturity portfolio. Of the total securities, 99.2% 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 foreign financial institutions, see chapter on "Credit Risk".

At 30 June 2017, the aggregate increase in value in shareholders' equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio totaled NIS 12 million (NIS 8 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 and the held-to-maturity portfolio. The trading portfolio includes mainly securities of countries, banks and financial institutions, and securities funds. 98.8% of the securities in the trading portfolio are investment grade.

The value of the non-asset backed trading portfolio at 30 June 2017 totaled NIS 2.2 billion (\$ 0.6 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 totaled NIS 43.1 billion at 30 June 2017, of which NIS 42.4 billion was in debentures issued by the Government of Israel in NIS, with the balance in debentures of the Government of Israel in foreign currency and corporate debentures. 40.6% of the investments in corporate debentures, totaling 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 totaling NIS 0.3 billion, include a capital reserve totaling NIS 24 million.

All the corporate debentures in the trading portfolio and most 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 totaled NIS 3,194 million on 30 June 2017, of which NIS 2,288 million was in listed shares and NIS 906 million was in non-listed shares. Of the total investment, NIS 2,671 million is classified in the available-for-sale portfolio and NIS 523 million is classified in the trading portfolio.

The capital required in respect of these investments at 30 June 2017 was NIS 399 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., 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 was NIS 13.5 million.

Deposits from the public

Deposits from the public in the Group totaled NIS 342.8 billion at 30 June 2017, compared with NIS 346.9 billion at the end of 2016, a decrease of 1.2%, and compared with June 2016, an increase of 0.8%.

The change in the exchange rate of the NIS against all foreign currencies reduced total deposits from the public by 2.4%, so that, excluding the effects of the change, there was an increase of 1.2% in deposits from the public.

Debentures, capital notes and subordinated notes

Debentures, capital notes and subordinated notes totaled NIS 22.3 billion at 30 June 2017, compared with NIS 22.6 million at the end of 2016, a decrease of 1.3%.

Early repayment 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 repayment NIS 400,000,000 par value of (non-tradable) index linked deposits / deferred capital notes, which were offered in 2002. Accordingly, in the period June-July 2017, the capital notes in an aggregate amount of NIS 534 million were repaid.

Capital and Capital Adequacy

The equity due to the shareholders of the Bank at 30 June 2017 was NIS 32,521 million, compared with NIS 31,347 million at the end of 2016, an increase of 3.7%. The increase is derived from mainly from the net income for the period.

This equity represents a basis for computing the regulatory capital, which is used for calculating the Bank's capital adequacy ratio, plus capital instruments and regulatory adjustments as stipulated in Proper Conduct of Banking Management Regulation No. 202 of the Banking Supervision Department.

The ratio of equity to total assets at 30 June 2017 reached 7.4%, compared with 7.1% at 31 December 2016.

Capital adequacy structure

	30 June 2017	30 June 2016	31 December 2016
	Unaudited		Audited
	NIS millions		
Capital for purposes of calculating capital ratio			
Common Equity Tier 1 capital, after regulatory adjustments and deductions	33,527	31,187	32,586
Tier 2 capital, after deductions	11,305	12,838	11,850
Total capital	44,832	44,025	44,436
Weighted balances of risk-weighted assets			
Credit risk	271,671	273,129	266,534
Market risk	6,308	6,369	4,788
Operational risk	21,129	20,433	20,843
Total weighted balances of risk-weighted assets	299,108	299,931	292,165
Ratio of capital to risk components			
Ratio of Common Equity Tier 1 capital to risk components	11.21%	10.40%	11.15%
Ratio of total capital to risk components	14.99%	14.68%	15.21%

Implementation of the Basel III directives in Israel

In May 2013, the Banking Supervision Department 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 effect on 1 January 2014, subject to the transitional provisions included in Proper Conduct of Banking Management Regulation No. 299 of the Banking Supervision Department.

According to these directives, the Group's capital, for the purpose of calculating capital adequacy, are composed of two tiers:

1. Tier 1 capital, including Common Equity Tier 1 capital (CET1) 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 total capital".

Tier 1 capital, including Common Equity Tier 1 capital and Additional Tier 1 capital:

Common Equity Tier 1 capital includes the capital due to the shareholders of the bank, with the addition of part of the minority interests (rights not conferring control of capital of consolidated subsidiaries) and the deduction of goodwill, other intangible assets and regulatory adjustments and additional deductions, all as pursuant 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".

Additional adjustments to Common Equity Tier 1 capital arising from the implementation of the efficiency plan and the method of calculating the discount rate used to calculate the liability for employee benefits are included, as set forth below.

Additional Tier 1 capital includes capital instruments complying with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. The Group has no capital instruments in this tier. Any Additional Tier 1 capital instruments which may be 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:

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

With regard to capital instruments included in Tier 2 capital on 31 December 2013, transitional provisions and an asset recognition ceiling were determined, such that the amount actually recognized in respect thereof is the lower of the amortized amount of the instruments themselves and the recognition ceiling based on the balance of capital instruments included in Tier 2 capital at 31 December 2013, which is being amortized at the beginning of each year by 10% until 1 January 2022. In 2017, the recognition ceiling is 50%.

From the beginning of 2014, capital instruments issued for the purpose of their inclusion in capital are required to comply with the criteria set forth in Proper Conduct of Banking Business Directive No. 202. 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 Common Equity Tier 1 capital ratio of the bank falls below 5%; (2) a clause 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 common shares or will be written down.

A description of the main features of regulatory capital instruments which have been issued is presented in the Bank's website: <http://leumi.co.il/home01/32587> in the chapter regarding >Financial information > Disclosure according to Third Pillar of Basel and Addition Information on Risks.

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 required deductions from this capital.
- Capital instruments qualified to be included in Tier 2 capital must not exceed 50% of Tier 1 capital after the required deductions from Tier 1 capital. This restriction does not encompass the capital instruments included in Upper Tier 2 capital prior to the directive, the balance of those instruments at 31 December 2013, and pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 "Measurement and Capital Adequacy - Regulatory Capital – Transitional Provisions".

Capital adequacy targets

Capital ratios are calculated as the ratio of capital to risk-weighted assets. The CET1 capital ratio is calculated as the ratio of CET1 capital to risk-weighted assets, and the Total capital ratio is calculated as the ratio of Total capital to risk-weighted 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, Incidence and Calculation of Requirements", a large bank, whose total consolidated assets constitutes at least 20% of the assets in the banking system in Israel, will be required to comply with a minimum CET1 capital ratio of 10%, and a minimum Total capital ratio of 13.5%, with effect from 1 January 2017. Leumi is subject to this requirement.

Furthermore, pursuant to an amendment to Proper Conduct of Banking Business Directive No. 329 "Restrictions on the Grant of Housing Loans", the Bank is required to increase the CET1 capital target and Total capital target at a rate of 1% of the balance of housing loans. This requirement was implemented gradually over eight quarters by 1 January 2017, and the effect of the amendment is an increase of 0.26% of the capital adequacy ratio.

Accordingly, the minimum capital requirements which apply to the Bank as of 30 June 2017 are 10.26% for the CET1 capital ratio and 13.76% for the Total capital ratio.

Capital adequacy targets prescribed by the Bank:

Capital planning in the Group reflects a forward-looking assessment of the risk appetite and profile, the business strategy and the capital adequacy required as a consequence. Capital planning takes into account the growth in activity of the various profit centers in the Group and other factors affecting the Bank's compliance with the capital requirements, such as: profit forecasts, changes included in other comprehensive income, regulatory adjustments and the impact of the transitional provisions and the rate of increase in risk-weighted assets.

For further information relating to the capital planning process in the Group, see the Report on Risks for 2016.

The Group policy approved by the Board of Directors is to maintain a level of capital adequacy higher than the minimum threshold that will be periodically specified by the Bank of Israel and will not be less than the capital adequacy ratio required for covering the risks estimated in the ICAAP process. In addition, the Group defined minimum thresholds in the event of a stress event.

As part of the regulatory review procedure, the Banking Supervision Department directed the determination of internal capital targets, which will match the Bank's risk profile. Furthermore, the Board of Directors approved an increase in the Bank's internal CET1 capital target, such that from 31 December 2017, it will stand at 10.5%.

Adjustments to Common Equity Tier 1 capital

Measurement of liabilities in respect of employee benefits

The regulation regarding employee benefits which was initially implemented in January 2015 has a significant impact on Leumi's Common Equity Tier 1 capital, mainly because the measurement of the liability relies on market interest rates, which are at historically low levels and because of the high volatility that such measurement imposes on in the Bank's regulatory capital.

In July 2016, the Bank received specific approval from the Bank of Israel regarding the method of calculating the discount rate, to be used in computing the liability for employee benefits for the purpose of measuring regulatory capital. Pursuant to the approval, the discount rate is calculated according to a moving average of the market yield for a period of eight quarters ending 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 use of a moving average in the calculation of the discount rate has significantly moderated the fluctuations in the Bank's regulatory capital arising from changes in the discount rate.

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

Relief in respect of Operating Efficiency Plan

In January 2016, the Banking Supervision Department published a letter regarding "Operating Efficiency of the Banking System in Israel". According to this letter, banks that meet the established conditions will receive a relief allowing them to spread the effects of the plan on the capital ratios and on the leverage ratios over five years on a straight-line basis.

In June 2016, the Board of Directors approved the efficiency plan, at a cost of NIS 438 million (after tax). In June 2017, 20% of the costs of this Plan are attributed to regulatory capital.

In June 2017, the Banking Supervision Department published an additional letter on the subject "Operating Efficiency in the Banking System in Israel – Efficiency in the Real Estate Sector". The letter extended the effective term of the relief in respect of the streamlining the labor force through the end of June 2018. In June 2017, the Board of Directors of the Bank approved an additional efficiency plan, the cost of which is estimated at NIS 394 million (after tax) and the effect of which on the capital adequacy ratios and leverage ratio will be spread over five years on a straight-line basis, on a quarterly basis.

- **Additional regulatory changes:**

Capital requirements in respect of exposures to key counterparties

In October 2015, the Banking Supervision Department published a letter regarding "Capital requirements in respect of exposures to key counterparties". This letter 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.

In June 2017, the Banking Supervision Department approved the Tel Aviv Stock Exchange Clearinghouse and the Ma'of Clearinghouse as eligible key counterparties for the purposes of computing capital requirements in respect of exposures to eligible key counterparties, as stated in Regulation 203.

For further information, see Note 9B.

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

- A change in risk-weighted assets – Leumi's risk-weighted assets totaled NIS 299.1 billion at the end of June 2017. An increase of 1% in the risk-weighted assets (about NIS 3 billion) will reduce the CET1 ratio by 0.11%, and the Total capital ratio by 0.15%.
- Accrued profit or a change in the capital reserve – Leumi's CET1 capital was NIS 33.5 billion at the end of June 2017. The total capital amounts to NIS 44.8 billion. Each accrual of net income and/or positive change in the capital reserve of NIS 1 billion will improve the CET1 ratio and the Total capital ratio by 0.33%.
- Liabilities regarding employee benefits –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 spread. A change of 0.1% across the discount rate curve, under the assumption that the curve rises and falls uniformly, means a cumulative effect of 0.07% in the CET1 ratio and in the Total capital ratio. Of this, according to a moving average calculation for eight quarters, an increase of 0.01% in the CET1 capital ratio and in the Total 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 definition 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 this policy, the Bank, each quarter, will distribute a dividend amounting to 20% of the Bank's net income according to the Bank's financial statements for the previous quarter and subject to, among other things, 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 14 August 2017, the Board of Directors approved the distribution of a dividend amounting to about NIS 175 million in accordance with the above policy.

Details regarding dividend paid

Date declared	Date paid	Dividend per share in agorot	Dividend paid in cash In NIS millions
25 May 2017	22 June 2017	8.168	124

For further information, see Note 9B.

Operating Segments – Management Approach

The report of the operating segments according to the Management Approach presents the Bank's results according to the business lines, as per the Bank's organizational structure.

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

For further information regarding business lines according to the Management Approach, see Chapter "Operating Segments" in the financial statements for 2016.

Below is a condensed summary of operating results by Management Approach:

For the three months ended 30 June 2017									
NIS millions									
	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			
Net interest income	1,039	248	143	112	309	2	68	244	2,165
Noninterest income	446	104	50	81	116	25	309	89	1,220
Total income	1,485	352	193	193	425	27	377	333	3,385
Expenses (income) for credit losses	116	5	(58)	(50)	(1)	(1)	14	17	42
Total operating and other expenses	1,023	171	70	31	75	189	259	202	2,020
Profit (loss) before tax	346	176	181	212	351	(161)	104	114	1,323
Tax expenses (income)	121	62	63	74	123	(40)	25	28	456
Net income (loss) due to shareholders of the Bank	225	114	118	138	227	(121)	89	86	876

For the three months ended 30 June 2016

NIS millions

	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate (a)	Real Estate(a)	Capital Markets	Other			
Net interest income	925	217	146	126	300	27	57	236	2,034
Noninterest income	435	95	59	91	153	466	246	(7)	1,538
Total income	1,360	312	205	217	453	493	303	229	3,572
Expenses (income) for credit losses	141	10	(221)	(55)	(25)	(11)	13	(6)	(154)
Total operating and other expenses	1,136	176	90	47	77	382	228	219	2,355
Profit (loss) before tax	83	126	336	225	401	122	62	16	1,371
Tax expenses (income)	30	45	120	80	144	(145)	113	20	407
Net income (loss) due to shareholders of the Bank	53	81	216	145	257	267	(45)	(4)	970

(a) In 2017, a segmentation of customers was made from the real estate segment to the corporate segment.

For the six months ended 30 June 2017

NIS millions

	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			
Net interest income	2,019	483	284	220	415	1	129	487	4,038
Noninterest income	897	206	109	165	380	104	602	44	2,507
Total income	2,916	689	393	385	795	105	731	531	6,545
Expenses (income) for credit losses	209	9	(65)	(35)	(16)	(8)	31	18	143
Total operating and other expenses	2,079	332	137	65	144	421	491	401	4,070
Profit (loss) before tax	628	348	321	355	667	(308)	209	112	2,332
Tax expenses (income)	220	122	112	124	234	(78)	54	56	844
Net income (loss) due to shareholders of the Bank	408	226	209	231	432	(230)	166	56	1,498
Balance at 30 June 2017									
Loans to the public, net	138,654	35,367	32,716	19,732	4,417	3,149	8,221	22,228	264,484
Deposits from the public	189,621	41,234	19,704	5,393	62,337	71	70	24,336	342,766
Assets under management	185,060	24,682	20,414	1,400	387,811	26,206	235,885	18,639	900,097

For the six months ended 30 June 2016

NIS millions

	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate (a)	Real Estate(a)	Capital Markets	Other			
Net interest income	1,836	438	261	268	318	-	106	462	3,689
Noninterest income	875	202	111	176	97	534	561	14	2,570
Total income	2,711	640	372	444	415	534	667	476	6,259
Expenses (income) for credit losses	295	(1)	(303)	(231)	(29)	(6)	15	(17)	(277)
Total operating and other expenses	2,187	339	177	89	148	532	445	428	4,345
Profit (loss) before tax	229	302	498	586	296	8	207	65	2,191
Tax expenses (benefit)	82	108	178	210	106	(102)	158	38	778
Net income (loss) due to shareholders of the Bank	147	194	320	376	191	110	64	27	1,429
Balance as at 30 June 2016									
Loans to the public, net	140,443	34,049	31,166	24,243	3,540	2,853	6,914	22,840	266,048
Deposits from the public	187,318	39,823	17,607	6,480	61,808	98	78	26,786	339,998
Assets under management	179,621	25,404	16,062	1,855	335,683	23,770	183,701	20,433	786,529

(a) In 2017, a segmentation of customers was made from the real estate segment to the corporate segment.

For the year ended 31 December 2016

NIS millions

	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate (a)	Real Estate(a)	Capital Markets	Other			
Net interest income	3,761	895	521	526	650	(1)	237	937	7,526
Noninterest 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) for 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 income (loss) due to shareholders of the Bank	173	427	481	696	774	75	231	(66)	2,791
Balance as at 31 December 2016									
Loans to the public, net	138,638	34,089	30,238	21,229	3,779	2,966	7,407	23,567	261,913
Deposits from 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	365,544	25,503	189,681	19,244	823,812

(a) In 2017, a segmentation of customers was made from the real estate segment to the corporate segment.

Regulatory operating segments

With regard to a description of the main operating segments, see the Chapter "Regulatory Operating Segments" in the financial statements for 2016.

For the three months ended 30 June 2017										
NIS millions										
	Activity in Israel								Overseas activity	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other		
Net interest income	704	27	454	162	290	18	272	-	238	2,165
Noninterest income	452	42	172	78	157	44	181	21	73	1,220
Total income	1,156	69	626	240	447	62	453	21	311	3,385
Expenses (income) for credit losses	51	1	66	(23)	(73)	2	3	-	15	42
Total operating and other expenses	918	33	342	124	132	69	26	173	203	2,020
Profit before tax	187	35	218	139	388	(9)	424	(152)	93	1,323
Tax expenses	60	13	77	49	135	(4)	141	(43)	28	456
Net income due to shareholders in the Bank	118	22	141	90	253	(5)	298	(106)	65	876

For the three months ended 30 June 2016										
NIS millions										
	Activity in Israel								Overseas activity	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other		
Net interest income	634	23	389	138	333	15	283	(10)	229	2,034
Noninterest income	428	41	172	80	167	41	540	11	58	1,538
Total income	1,062	64	561	218	500	56	823	1	287	3,572
Expenses (income) for credit losses	110	-	36	(39)	(215)	(18)	(30)	1	1	(154)
Total operating and other expenses	1,033	32	345	120	154	72	36	343	220	2,355
Profit (loss) before tax	(81)	32	180	137	561	2	817	(343)	66	1,371
Tax expenses (benefit)	(37)	12	62	48	200	1	309	(209)	21	407
Net income (loss) due to shareholders in the Bank	(53)	20	117	88	361	1	524	(133)	45	970

For the six months ended 30 June 2017										
NIS millions										
	Activity in Israel								Overseas activity	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other		
Net interest income	1,360	46	901	318	566	34	337	1	475	4,038
Noninterest income	882	85	356	157	328	88	442	36	133	2,507
Total income	2,242	131	1,257	475	894	122	779	37	608	6,545
Expenses (income) for credit losses	72	2	152	(29)	(68)	2	(7)	(3)	22	143
Total operating and other expenses	1,835	65	682	240	262	136	55	392	403	4,070
Profit (loss) before tax	335	64	423	264	700	(16)	731	(352)	183	2,332
Tax expenses (benefit)	104	23	148	94	244	(6)	258	(77)	56	844
Net income (loss) due to shareholders in the Bank	212	41	274	170	455	(10)	498	(269)	127	1,498
Balance at 30 June 2017										
Gross loans to the public	111,847	457	53,740	24,911	52,163	2,090	-	-	22,578	267,786
Deposits from the public	114,662	27,878	41,050	32,509	43,190	59,142	-	-	24,335	342,766
Assets under management	82,140	48,933	30,502	18,301	75,465	589,481	36,636	-	18,639	900,097

For the six months ended 30 June 2016										
NIS millions										
Activity in Israel									Overseas activity	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other		
Net interest income	1,251	42	784	280	585	26	284	(9)	446	3,689
Noninterest income	848	81	343	158	329	84	562	18	147	2,570
Total income	2,099	123	1,127	438	914	110	846	9	593	6,259
Expenses (income) for credit losses	206	1	92	(40)	(472)	(11)	(49)	(5)	1	(277)
Total operating and other expenses	1,964	65	647	241	316	135	64	484	429	4,345
Profit (loss) before tax	(71)	57	388	237	1,070	(14)	831	(470)	163	2,191
Tax expenses (benefit)	(42)	21	137	84	382	(5)	325	(163)	39	778
Net income (loss) due to shareholders in the Bank	(47)	36	249	152	688	(9)	541	(305)	124	1,429
Balance at 30 June 2016										
Gross loans to the public	114,917	454	49,764	23,573	56,738	917	-	-	23,239	269,602
Deposits from the public	115,171	28,975	33,932	31,145	45,220	58,770	-	-	26,785	339,998
Assets under management	78,858	50,163	26,610	19,740	64,872	488,438	37,415	-	20,433	786,529

For the year ended 31 December 2016										
NIS millions										
	Activity in Israel								Overseas activity	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other		
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) for 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 income (loss) due to shareholders in the Bank	(214)	73	466	327	1,194	(21)	1,162	(294)	98	2,791
Return on capital										
Balance at 31 December 2016										
Gross loans to the public	114,013	424	50,763	24,171	50,647	1,486	-	-	23,946	265,450
Deposits from 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	33,663	-	19,244	823,812

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-banks operating in non-banking activity.

The Bank's total investments in investee companies (including investment in capital notes) totaled NIS 11.4 billion at 30 June 2017, similar to the investment at 31 December 2016, and the contribution of investee companies to the Group's net income was NIS 242 million, compared with net income of NIS 111 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel was NIS 5,938 million at 30 June 2017, compared with NIS 5,783 million on 31 December 2016. Their contribution to the Group's net operating profit was NIS 160 million in the first half of 2017, compared with NIS 75 million in the same period last year, an increase of 112.8%. The Group's return on its investment in the consolidated companies in Israel was 5.5% in the first half of 2017 compared with 2.5% in the corresponding period last year.

Leumi Partners

On 7 May 2017, the subsidiary Leumi Partners entered into an agreement in a non-binding memorandum of understanding¹ (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.

Foreign consolidated companies

The Bank's total investment in offices abroad on 30 June 2017 totaled NIS 3,959 million, compared with NIS 4,108 million at the end of 2016.

The contribution of the offices abroad to the net income of the Group in NIS in the first half of 2017 was income of NIS 81 million compared with income of NIS 34 million in the corresponding period last year. The Group return on the investment in foreign consolidated companies was 4.0% in the first half of the year, compared with 1.6% in the same period last year.

With regard to legal actions and other matters concerning consolidated companies. see Note 10 in the financial statements.

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 Board of Directors and Management for 2016 and Report on Risks for 2016. The chapter below should therefore be read in conjunction with those reports.

Risk management 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 liquidity risk management and market 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. These risks include operating risks, including technological and cyber risks, legal risks, regulatory risks, reputational risks, compliance risks and conduct risks (fair conduct with customers) and strategic risks. 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 in policy and restrictions derived therefrom, which create the boundaries for business activity. This framework is managed under the maintenance of the existence of proper control and reporting mechanisms. 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 Board of Directors and Management Report for 2016.

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 risks

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 bank, 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.

Lending is the main core activity of the Bank and the Group and credit risk is managed respectively through three lines of defense. The central principles in the management of credit risk are set forth in the document "Credit Policy and Credit Risk" which is reviewed each year and updated as necessary with the Management's approval.

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

Since the beginning of the year, there has not been a material change in the risk profile of the loan portfolio.

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

Problem Credit Risk

	30 June 2017		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	3,445	306	3,751
Subordinate credit risk	953	88	1,041
Credit risk under special mention (b)	2,838	1,330	4,168
Total problem credit	7,236	1,724	8,960
Of which: Unimpaired debts in arrears 90 days or more (b)	857	-	-
2. Non-performing assets:			
Impaired debts	3,007	-	-
Assets received in respect of credit cleared	9	-	-
Total non-performing assets	3,016	-	-

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 housing loans for which there is an allowance according to the extent of arrears and for housing loans for which there is no allowance according to the extent of arrears of 90 days or more.

Problem	Credit	Risk	(cont'd)
		30 June 2016	
		Balance sheet	Off-balance sheet
		Total	
		NIS millions	
1. Problem credit risk: (a)			
Impaired credit risk	3,539	274	3,813
Subordinate credit risk	1,213	229	1,442
Credit risk under special mention (b)	3,156	1,288	4,444
Total problem credit	7,908	1,791	9,699
Of which: Unimpaired debts in arrears 90 days or more (b)	925	-	-
2. Non-performing assets:			
Impaired debts	2,914	-	-
Assets received in respect of credit cleared	12	-	-
Total non-performing assets	2,926	-	-
		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 debts of a borrower and a group of borrowers.

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

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

Details of Credit Risk Metrics

	30 June 2017	30 June 2016	31 December 2016
	%		
Balance of impaired loans to the public as a percentage of the balance of loans to the public	1.28	1.30	1.38
Balance of unimpaired loans to the public in arrears of 90 days or more as a percentage of the balance of loans to the public	0.32	0.34	0.38
Problem credit risk in respect of the public as a percentage of total credit risk in respect of the public	2.70	2.92	2.90
Expenses for credit losses as a percentage of the average balance of loans to the public	0.05	(0.10)	(0.05)
Net write-offs for loans to the public as a percentage of the average balance of loans to the public	(0.12)	0.05	-

Details of credit risk metrics of allowance for credit losses

	30 June 2017	30 June 2016	31 December 2016
	%		
Balance of the allowance for credit losses in respect of loans to the public as a percentage of the balance of loans to the public	1.4	1.5	1.5
Balance of the allowance for credit losses in respect of loans to the public as a percentage of the balance of impaired loans to the public	111.2	114.2	110.2
Balance of the allowance for credit losses in respect of loans to the public as a percentage of the balance of impaired loans to the public with the addition of the balance of loans to the public in arrears of 90 days or more	89.0	90.4	86.4
Net write-offs for loans to the public as a percentage of the balance of the allowance for credit losses for loans to the public	(8.5)	3.4	(0.1)

Loan 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 loan portfolio among the various market sectors

The Bank's loan 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 loan portfolio 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 risk of loans to the public by market sector

30 June 2017										
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)	¹ Total	Debts (b)	Problematic (e)	Impaired credit losses	Provision for	Net accounting write-offs	Balance of allowance for credit losses	
(NIS millions)										
In respect of activity of borrowers in Israel										
Agriculture	2,185	2,041	144	2,183	1,875	144	76	4	5	(57)
Mining and quarrying	933	924	9	907	423	9	1	1	-	(1)
Industry	21,844	20,658	1,186	21,560	14,457	1,182	611	85	133	(465)
Construction and real estate - construction (g)	47,803	46,262	1,541	47,675	16,751	1,541	346	42	26	(344)
Construction and real estate - real estate activity	27,390	26,418	972	27,288	24,141	967	757	(54)	(27)	(413)
Electricity and water	4,795	4,435	360	4,349	3,242	360	253	2	1	(68)
Commerce	28,452	27,455	997	28,277	23,350	986	225	25	49	(297)
Hotels, catering services and food	2,866	2,684	182	2,841	2,634	182	68	(6)	(7)	(28)
Transport and storage	8,386	8,133	253	8,293	6,976	253	162	8	7	(46)
Communications and computer services	5,295	5,197	98	5,077	3,646	97	86	(3)	(2)	(70)
Financial services	20,765	20,423	342	14,793	10,767	338	334	(63)	(54)	(195)
Business and other services	9,335	9,200	135	9,312	6,652	135	52	13	20	(144)
Public and community services	8,452	8,391	61	8,429	7,254	61	19	6	7	(53)
Total commercial (h)	188,501	182,221	6,280	180,984	122,168	6,255	2,990	60	158	(2,181)
Private individuals - housing loans	79,715	79,015	700	79,714	77,996	700	-	(11)	3	(450)
Private individuals - other	68,825	68,233	592	68,815	38,774	591	120	72	123	(772)
Total public - activity in Israel	337,041	329,469	7,572	329,513	238,938	7,546	3,110	121	284	(3,403)
Banks in Israel	4,032	4,032	-	1,216	1,156	-	-	-	-	(1)
Government of Israel	45,204	45,204	-	154	154	-	-	-	-	-
Total activity in Israel	386,277	378,705	7,572	330,883	240,248	7,546	3,110	121	284	(3,404)

- (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, derivative assets, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 240,247, 44,717, 1,031, 4,361, 95,921, million, respectively.
- (b) Credit risk to the public, loans 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 and off-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 945 million, which were extended to purchasing groups in the process of construction.

Overall risk of loans to the public by market sector (contd.)

	30 June 2017									
	Overall credit risk (a)				Debts (b) and off-balance sheets credit risk (except for derivatives) (c)					
					Credit losses (d)					
					¹ Of which:					
		Credit	Problematic						Net	Balance of
	Total	performance	(e)	Total ¹	Debts (b)	Problematic (e)	Impaired credit losses	Provision for	accounting	allowance for
	(NIS millions)	rating (f)							write-offs	credit losses
In respect of activity of foreign borrowers										
Public - Commercial										
Agriculture	158	158	-	156	56	-	-	(1)	-	(1)
Mining and quarrying	9	9	-	9	4	-	-	-	-	-
Industry	8,028	7,750	278	6,638	4,331	278	89	(1)	2	(39)
Construction and real estate (g)	14,578	13,726	852	13,910	9,813	852	322	2	7	(173)
Electricity and water	223	223	-	79	23	-	-	-	-	-
Commerce	6,051	6,019	32	5,858	3,858	32	28	19	3	(82)
Hotels, catering services and food	1,983	1,979	4	1,971	1,725	4	-	2	-	(12)
Transport and storage	103	65	38	89	72	38	38	8	8	(13)
Communications and computer services	2,005	1,991	14	1,710	914	14	-	-	-	(1)
Financial services	15,485	15,398	87	2,253	1,416	87	87	(5)	13	(43)
Business and other services	5,756	5,725	31	5,441	5,196	31	21	-	9	(32)
Public and community services	798	791	7	795	478	7	7	-	-	(17)
Total commercial	55,177	53,834	1,343	38,909	27,886	1,343	592	24	42	(413)
Private individuals - housing loans	501	472	29	501	500	29	28	(2)	1	(7)
Private individuals - other	540	524	16	539	462	16	16	-	-	(2)
Total public - foreign activity	56,218	54,830	1,388	39,949	28,848	1,388	636	22	43	(422)
Foreign banks	26,514	26,514	-	8,226	8,180	-	-	-	-	-
Foreign governments	10,975	10,975	-	1,212	465	-	-	-	-	-
Total foreign activity	93,707	92,319	1,388	49,387	37,493	1,388	636	22	43	(422)
Total	479,984	471,024	8,960	380,270	277,741	8,934	3,746	143	327	(3,826)

Overall risk of loans to the public by market sector (contd.)

30 June 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 credit losses	Provision for	Net accounting write-offs	Balance of allowance for credit losses	
(NIS millions)										
In respect of activity of foreign borrowers										
Public - Commercial										
Agriculture	2,145	1,985	160	2,143	1,828	160	71	6	1	(45)
Mining and quarrying	754	745	9	661	315	9	-	-	-	-
Industry	23,181	21,816	1,365	22,851	15,221	1,364	514	(211)	(171)	(485)
Construction and real estate - construction(g)	47,749	46,294	1,455	47,663	16,363	1,455	225	(58)	(17)	(303)
Construction and real estate - real estate activity	28,237	26,868	1,369	28,167	25,502	1,369	754	(201)	(39)	(467)
Electricity and water	4,994	4,605	389	4,702	3,190	389	279	33	1	(73)
Commerce	28,465	27,184	1,281	28,313	22,894	1,231	276	35	-	(334)
Hotels, catering services and food	3,044	2,888	156	3,011	2,649	156	110	(61)	(56)	(25)
Transport and storage	7,755	7,474	281	7,637	6,241	281	216	10	2	(42)
Communications and computer services	6,504	6,262	242	5,825	4,369	238	228	(2)	(1)	(77)
Financial services	20,015	19,872	143	14,280	10,317	143	51	(71)	(12)	(241)
Business and other services	8,508	8,384	124	8,311	5,828	124	51	33	14	(117)
Public and community services	8,200	8,151	49	8,182	6,783	49	17	9	2	(50)
Total commercial (h)	189,551	182,528	7,023	181,746	121,500	6,968	2,792	(478)	(276)	(2,259)
Private individuals - housing loans	83,067	82,318	749	83,067	80,831	749	-	6	2	(500)
Private individuals - other	66,876	66,132	744	66,860	37,533	744	262	230	109	(775)
Total public - activity in Israel	339,494	330,978	8,516	331,673	239,864	8,461	3,054	(242)	(165)	(3,534)
Banks in Israel	5,771	5,771	-	3,175	3,103	-	-	(1)	-	(2)
Government of Israel	50,686	50,686	-	220	221	-	-	-	-	-
Total activity in Israel	395,951	387,435	8,516	335,068	243,188	8,461	3,054	(243)	(165)	(3,536)

(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, derivative assets, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 243,188, 49,621, 1,476, 2,817, 98,849 million, respectively.

(b) Credit risk to the public, Loans 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 and off-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 982 million, which were extended to purchasing groups in the process of construction

Overall risk of loans to the public by market sector (contd.)

30 June 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	Provision for credit losses	Net accounting write-offs	Balance of allowance for credit losses	
(NIS millions)										
In respect of activity of foreign borrowers										
Public - Commercial										
Agriculture	54	53	1	53	31	1	1	(1)	-	(1)
Mining and quarrying	46	46	-	45	37	-	-	-	-	-
Industry	8,507	8,227	280	6,905	4,494	280	62	(26)	11	(52)
Construction and real estate (g)	12,521	11,963	558	12,139	9,324	558	371	(17)	(4)	(207)
Electricity and water	314	314	-	95	49	-	-	-	-	-
Commerce	7,434	7,377	57	7,324	4,789	57	56	9	1	(81)
Hotels, catering services and food	1,733	1,726	7	1,733	1,628	7	1	(1)	-	(10)
Transport and storage	143	79	64	126	101	64	63	6	19	(16)
Communications and computer services	2,321	2,321	-	2,074	733	-	-	-	-	(1)
Financial services	17,750	17,660	90	2,753	1,827	90	90	(6)	(2)	(48)
Business and other services	5,477	5,416	61	5,386	4,552	61	22	3	-	(24)
Public and community services	594	587	7	591	466	7	7	(1)	-	(18)
Total commercial	56,894	55,769	1,125	39,224	28,031	1,125	673	(34)	25	(458)
Private individuals - housing loans	1,145	1,108	37	1,145	1,140	37	36	-	3	(13)
Private individuals - other	738	717	21	727	567	21	20	-	-	(4)
Total public - foreign activity	58,777	57,594	1,183	41,096	29,738	1,183	729	(34)	28	(475)
Foreign banks	27,848	27,848	-	11,833	10,059	-	-	-	-	-
Foreign governments	13,025	13,025	-	871	259	-	-	-	-	-
Total foreign activity	99,650	98,467	1,183	53,800	40,056	1,183	729	(34)	28	(475)
Total	495,601	485,902	9,699	388,868	283,244	9,644	3,783	(277)	(137)	(4,011)

- (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, derivative assets and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 40,056, 32,893, -, 10,182, 16,519 million, respectively.
- (b) Credit risk to the public, Loans 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 and off-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.

Overall risk of loans to the public by market sector (contd.)

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 credit losses	Provision for	Net accounting write-offs	Balance of allowance for credit losses	
(NIS millions)										
In respect of activity of foreign borrowers										
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	4,370	4,370	-	1,801	1,742	-	-	(2)	-	(1)
Government of Israel	41,992	41,992	-	206	206	-	-	-	-	-
Total activity in Israel	376,434	368,100	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, derivative assets 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, 93,337 million, respectively.

(b) Credit risk to the public, Loans 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 and off-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 loans to the public by market sector (contd.)

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 credit losses	Provision for	Net accounting write-offs	Balance of allowance for credit losses	
(NIS millions)										
In respect of activity of foreign borrowers										
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 - foreign activity	58,288	57,211	1,077	41,642	29,942	1,079	669	(28)	54	(451)
Foreign banks	25,423	25,423	-	10,385	9,654	-	-	-	-	-
Foreign governments	15,220	15,220	-	833	436	-	-	-	-	-
Total foreign activity	98,931	97,854	1,077	52,860	40,032	1,079	669	(28)	54	(451)
Total	475,365	465,954	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, derivative assets, 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, 17,338 million, respectively.

(b) Credit risk to the public, Loans 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 and off-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 sector is the market sector in which the Bank has the greatest exposure. As with other market sectors, methodologies and parameters for financing transactions in each of the sub-sectors of the real estate sector are defined for the real estate sector as part of the credit risk policy.

The construction and real estate loan portfolio is closely monitored. In addition, 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 ensures dispersal of the geographic areas in which the projects are being built according to demand, and between the various sub-sectors.

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

		30 June	31 December	
		2017	2016	2016
Credit ceiling to a single borrower in NIS thousands		Credit balance		
From	To:	NIS millions		
-	300	1,698	1,471	1,512
300	600	1,768	1,647	1,762
600	1,200	2,963	2,973	3,141
1,200	2,000	2,385	2,506	2,332
2,000	4,000	3,398	3,591	3,468
4,000	8,000	4,255	4,335	4,432
8,000	20,000	6,583	6,328	6,547
20,000	40,000	5,944	5,533	5,826
40,000	200,000	22,894	21,199	21,264
200,000	400,000	10,936	12,743	10,501
400,000	800,000	12,473	12,931	11,995
800,000	1,200,000	3,976	4,516	2,787

Group of borrowers

The Bank monitors the credit exposures of the large borrower groups for reporting purposes to the Bank of Israel, examining the compliance with the size of the indebtedness with regulatory limits and for internal supervision.

With effect from 1 January 2016, the revised Proper Conduct of Banking Business Directive No. 313 "Limitation on the Indebtedness of a Borrower and a Group of Borrowers" came into force. The main amendment to the directive is the gradual reduction (until 31 December 2018) of the definition of capital, in relation to which the limit was defined, from the Total capital to Tier 1 capital only.

The Bank complies with all the requirements of the aforementioned revision.

Limits on indebtedness of a borrower or group of borrowers

1. At 30 June 2017, the Group had no credit 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. At 30 June 2017, the Group had no credit exposure to large borrowers, groups of borrowers and banking groups of borrowers whose indebtedness exceeds 10% of the Bank's capital. The aggregate regulatory limit in respect of these exposures is 120% of the Bank's capital.

Geographic dispersal

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

Geographic dispersal in the loan 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 geographic 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. This information enables the Bank to maintain overall monitoring of the exposures of all the borrowers to the various countries.

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

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

Exposure by country is divided as follows: United States 41%, Europe (Germany, France, Italy, Spain and the Benelux countries) 21%, United Kingdom, 21% 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 capital for the purpose of calculating capital ratios, whichever the lower:

30 June 2017						
Balance sheet exposure (a)						
Country	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local		
	To governments (c)	To banks	To others	Balance sheet exposure before deducting local	Deduction for local liabilities	Balance sheet exposure net after
Country	NIS millions					
United States	3,696	2,413	9,962	22,066	11,049	11,017
United Kingdom	175	3,184	3,382	6,155	1,668	4,487
France	2,237	1,090	282	-	-	-
Switzerland	-	568	504	62	62	-
Germany	428	3,211	370	-	-	-
Others	2,801	5,230	5,758	1,054	524	530
Total exposure to foreign countries	9,337	15,696	20,258	29,337	13,303	16,034
Total exposure to LDC countries	212	1,134	877	1,040	520	520
Total exposure to GIIPS countries (d)	319	10	318	-	-	-

30 June 2017							
Balance sheet exposure (a)				Off-balance sheet exposure (a) (b)			
				Cross-border balance			
Country	Total	Problematic balance sheet credit	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit	Repayment period	
	balance sheet exposure					Up to one year	Over one year
NIS millions							
United States	27,088	1,093	338	7,243	-	4,830	11,241
United Kingdom	11,228	181	181	5,924	-	2,849	3,892
France	3,609	13	13	2,036	-	2,660	949
Switzerland	1,072	-	-	1,933	-	535	537
Germany	4,009	-	-	2,087	-	1,496	2,513
Others	14,319	118	107	2,844	-	7,172	6,617
Total exposure to foreign countries	61,325	1,405	639	22,067	-	19,542	25,749
Total exposure to LDC countries	2,743	102	100	2,013	-	452	1,771
Total exposure to GIIPS countries (d)	647	-	-	199	-	578	69

See notes on page 56.

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 capital for the purpose of calculating capital ratios, whichever the lower (contd.):

30 June 2016						
Balance sheet exposure (a)						
Cross-border balance sheet exposure				Balance sheet exposure of foreign offices		
				Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	To governments (c)	To banks	To others			
NIS millions						
United States	11,606	3,190	10,377	23,508	11,513	11,995
United Kingdom	-	3,683	4,021	7,276	1,876	5,400
France	-	983	1,014	-	-	-
Switzerland	-	731	785	575	64	511
Germany	-	2,476	861	-	-	-
Others	407	5,188	4,488	1,177	637	540
Total exposure to foreign countries	12,013	16,251	21,546	32,536	14,090	18,446
Total exposure to LDC countries	258	1,003	512	1,173	636	537
Total exposure to GIIPS countries (d)	-	12	324	-	-	-

30 June 2016							
Balance sheet exposure (a)				Off-balance sheet exposure (a) (b)			
				Cross-border balance			
				Of which: problematic off-balance sheet credit risk			
				Repayment period			
Country	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Up to one year	Over one year	
NIS millions							
United States	37,168	761	314	7,755	-	9,965	15,208
United Kingdom	13,104	193	192	3,007	-	3,440	4,264
France	1,997	19	19	1,687	-	863	1,134
Switzerland	2,027	-	-	1,986	-	722	794
Germany	3,337	-	-	1,996	-	2,539	798
Others	10,623	243	219	2,673	-	2,530	7,553
Total exposure to foreign countries	68,256	1,216	744	19,104	-	20,059	29,751
Total exposure to LDC countries	2,310	198	167	1,729	-	153	1,620
Total exposure to GIIPS countries (d)	336	-	-	244	-	147	189

See notes on page 56.

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 capital for the purpose of calculating capital ratios, whichever the lower (contd.):

31 December 2016						
Balance sheet exposure (a)						
Cross-border balance sheet exposure			Balance sheet exposure of foreign offices			
			Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities	
Country	To governments (c)	To banks	To others			
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			
				Repayment period			
Country	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
NIS millions							
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	20,311	-	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, problematic 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 debts 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 purposes of limits of indebtedness 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.
- (e) Restated.

Notes:

1. The line "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the World Bank as having low or medium income.
2. Balance sheet exposure to a foreign country includes balance sheet exposure beyond the border and balance sheet exposure of offices of the bank in a foreign country for local residents. Balance sheet exposure beyond the border includes balance sheet exposure of the offices of the bank in Israel to residents of the foreign country and balance sheet exposure of the overseas offices of the bank for residents who are not residents of the country in which the office is located. Balance sheet exposure of the office of the bank in a foreign country for local residents include balance sheet exposure of the office of the bank 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 – At 30 June 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 the capital, 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 liabilities are rated with a credit rating of CCC or lower) amounts to NIS 697 million and relates to 10 countries. (At 30 June 2016, this totaled NIS 653 million and related to 9 countries, and, at 31 December 2016, this totaled 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, at 30 June 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	58,582	20,054	78,636	94.3	1,303
Countries with mid-high income	2,432	1,223	3,655	4.4	98
Countries with mid-low income	311	789	1,100	1.3	4
Countries with low income	-	1	1	0.0	-
Total	61,325	22,067	83,392	100.0	1,405

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

High income - exceeding \$ 12,236 per capita.

Mid-high income - from \$ 3,956 to \$ 12,235 per capita.

Mid-low income - from \$ 1,006 to \$ 3,955 per capita.

Low income – up to \$ 1,005 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 foreign 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 foreign subsidiaries make deposits.

The following table sets out the credit exposure to foreign financial institutions^(a):

	30 June 2017			
	Balance sheet credit risk (b)	balance sheet credit risk (c)	balance sheet credit risk (d)	Current credit exposure
	NIS millions			
Current credit exposure to foreign financial institutions (d)				
AAA to AA-	17,155	913	16,407	16,407
A+ to A-	3,784	671	4,455	4,455
BBB+ to BBB-	276	221	497	497
BB+ to B-	4	16	20	20
Below B-	11	1	12	12
Unrated	201	-	201	201
Total current credit exposure to foreign financial institutions	19,770	1,822	21,592	21,592
Problem debt balances	-	-	-	-
	30 June 2016			
	Balance sheet credit risk (b)	Securities (c)	Current off-balance sheet credit risk (d)	Current credit exposure
	NIS millions			
Current credit exposure to foreign financial institutions (d)				
AAA to AA-	17,417	2,311	19,728	19,728
A+ to A-	3,123	89	3,212	3,212
BBB+ to BBB-	264	357	621	621
BB+ to B-	2	8	10	10
Below B-	27	-	27	27
Unrated	369	8	377	377
Total current credit exposure to foreign financial institutions	21,202	2,773	23,975	23,975
Problem debt balances	-	-	-	-

- (a) Foreign financial institutions include banks, investment banks, dealers/brokers, insurance companies and institutional bodies.
- (b) Deposits in banks, loans to the public, securities that were borrowed or purchased in the context of resell agreements, other derivative assets (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 321 million at 30 June 2017 (30 June 2016 – NIS 417 million and 31 December 2016 - NIS 478 million).
- (c) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
- (d) The Bank uses only the rating of Moody's and S&P to rate the foreign financial institutions to which there is a credit exposure.

Notes:

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

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

- (a) Foreign financial institutions include banks, investment banks, dealers/brokers, insurance companies and institutional bodies.
- (b) Deposits in banks, loans to the public, securities that were borrowed or purchased in the context of resell agreements, other derivative assets (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 321 million at 30 June 2017 (30 June 2016 – NIS 417 million and 31 December 2016 - NIS 478 million).
- (c) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
- (d) The Bank uses only the rating of Moody's and S&P 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 for further information).
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 foreign), see Note 11 to the financial statements.

Risks in the housing loan portfolio

Developments in credit risks

In the first half of the year, there was a fall in demand for housing loans in Israel, following a sharp increase in demand in recent years, 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 balanced 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 six months ended 30 June		Change
	2017	2016	
	NIS millions		%
From Bank funds	3,845	5,574	(31.0)
From Ministry of Finance funds:			
Direct loans	12	5	140.0
Bullet loans	4	6	(33.3)
Total new loans	3,861	5,585	(30.9)
Refinanced loans	473	1,206	(60.8)
Total loans	4,334	6,791	(36.2)

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 housing loan balance in Israel, net:

	Balance of loan portfolio	Rate of growth
	NIS millions	%
31 December 2015	80,105	9.1
31 December 2016	78,183	(2.4)
30 June 2017	77,559	(0.8)

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

Development of housing loans in Israel, net, by linkage basis:

	Unlinked	Percentage of loan portfolio	CPI- linked	Percentage of loan portfolio	Foreign currency	Percentage of loan 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	45,954	57.5	31,986	40.9	1,243	1.6	78,183
30 June 2017	45,024	58.0	31,457	40.6	1,078	1.4	77,559

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

	Fixed		Variable			Total loan portfolio
	Unlinked	CPI-linked	Unlinked	CPI-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
30 June 2017	13,990	11,490	31,034	19,967	1,078	77,559

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

The development of new loans 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
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Annual average
	Percentage of loans extended						
	%						
Fixed – CPI-linked	15.1	16.7	18.3	17.6	18.9	19.4	18.6
Variable every 5 years and above – CPI-linked	16.8	16.2	14.2	13.4	12.1	13.9	13.3
Variable up to 5 years –CPI-linked	0.1	0.2	0.3	0.3	0.6	1.2	1.2
Fixed – unlinked	29.9	27.5	29.4	29.7	32.1	29.0	32.1
Variable every 5 years and above – unlinked	7.0	7.3	8.3	8.1	7.7	6.8	6.0
Variable up to 5 years – unlinked	30.9	31.5	29.0	30.5	28.3	29.4	28.3
Variable – foreign currency	0.2	0.6	0.5	0.4	0.3	0.3	0.5

The percentage of new loans extended by the Bank in variable interest housing loans during the reporting period was 54.9%, 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 loans at variable interest stood at 31.6% during the reporting period, compared with 30.2% in the whole of 2016.

The balance of the housing loan portfolio in Israel more than 90 days in arrears is as follows:

	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	78,646	749	1.0
30 June 2017	78,009	730	0.9

The allowance for credit losses at 30 June 2017, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 450 million, representing 0.58% of the housing loan balance, compared with NIS 463 million at 31 December 2016, representing 0.59% of the housing loan balance.

Data relating to new housing loans in Israel:

In the reporting period, the Bank extended new housing loans amounting to NIS 3.7 billion from its funds. During 2016, the Bank extended new housing loans amounting to NIS 9.8 billion from its funds.

The average loan extended by the Bank in the reporting period was NIS 530 thousand, compared with NIS 555 thousand in 2016 and NIS 623 thousand in 2015.

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

The development of new loans 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
	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	%						
Rate of financing	(a)						
Between 60% and 70% (inclusive)	16.9	15.7	15.6	18.4	16.3	15.5	18.8
Between 70% and 80% (inclusive)	17.8	14.3	14.7	17.8	12.7	13.5	16.7
Above 80%	0.04	0.1	0.1	0.1	0.1	0.2	1.1

(a) Of the new loans extended by the Bank.

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

The average rate of financing of the balance of the loan portfolio as of 30 June 2017 stands at 46.5%, compared with 47.1% in 2016.

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

The percentage of loans made in the reporting period in which the repayment ratio is lower than 2.5 at the date of approval of the loan stood at 1.5% of the total new extensions of new loans, 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 Directive No. 876.

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

The percentage of the new housing loans, in which repayment dates according to loan agreements are longer than 25 years, was, on average, in the reporting period at 35.6% of the total of new loans extended, compared with 35.9% for 2016 and 30.0% for 2015.

Credit risk to private individuals (excluding housing loans)

Total loans to private individuals (hereinafter: "private credit"), as well as the loan 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 mainly on a trend of significant expansion.

Private credit, the repayment ability of which is mainly 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 in branches dispersed throughout the country and online channels. The Banking Division 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
31 December 2015	46,461
31 December 2016	49,987
30 June 2017	49,836

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

Size of credit risk		30 June 2017		31 December 2016	
From -	To	NIS millions	Percentage of portfolio	NIS millions	Percentage of portfolio
-	25	5,030	10.05%	5,062	10.13%
25	50	7,406	14.86%	7,489	14.98%
50	75	6,971	13.99%	7,023	14.05%
75	100	6,211	12.46%	6,221	12.45%
100	150	8,967	17.99%	8,817	17.64%
150	200	5,585	11.25%	5,356	10.70%
200	300	5,442	10.92%	5,423	10.85%
Above 300		4,224	8.47%	4,596	9.20%

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

	30 June 2017		31 December 2016	
	Credit risk	%	Credit risk	%
	NIS millions	Overall credit	NIS millions	Overall credit
Current accounts and balance utilized in credit cards	7,263	14.6%	7,394	14.8%
Loans to purchase motor vehicles (on liens)	2,573	5.2%	2,585	5.2%
Loans and other	21,802	43.7%	21,775	43.6%
Total balance sheet credit risk	31,638	63.5%	31,754	63.5%
Unutilized current account facility	6,930	13.9%	6,992	14.0%
Unutilized credit card facility	10,903	21.9%	10,905	21.8%
Other off balance sheet credit risk	364	0.7%	335	0.7%
Total off-balance sheet credit risk	18,197	36.5%	18,232	36.5%
Overall total credit risk	49,835	100.0%	49,986	100.0%

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

	30 June	31 December	
	2017	2016	2015
	NIS millions		
Non-problem credit	31,338	31,369	28,166
Unimpaired problem credit	202	294	161
Impaired problem credit	98	91	44
Total balance sheet credit risk	31,638	31,754	28,371
Problem credit risk as a percentage of total debts to private individuals			
	0.9%	1.2%	0.7%

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

Exposure of the Bank to leveraged financing

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

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

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

We would point out that, in general, total leveraged financing in the Bank has been on a decreasing trend for some years.

The following table presents the aggregate balances of loans to leveraged borrowers, each of which has a loan balance of 0.5% or more of the Tier 1 capital at the reporting date, according to market sectors:

	30 June 2017	31 December 2016
Market sector	NIS millions	
Supply of electricity	835	601
Mining and quarrying	381	377
Commerce	468	541
Real estate	167	434
Financial services	496	596
Transport and storage	411	434
Industry	1,027	877
Total	3,785	3,860

Market risks

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 Banking Supervision Department on the subject of the Group's market risk management, including Proper Conduct of Banking Management Regulation No. 333 regarding "Interest Risks Management" and No. 339 regarding "Market Risk Management" in the framework of the implementation of these directives, basic principles for the method of risk management and control were determined, including the responsibility of the management and the Board of Directors, the definition of the means of control and the tools for measuring the risks and the means of control and supervision of these risks, while implementing corporate governance, which includes the three "lines of defense".

Market risk management policy

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

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

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

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

The Bank has implemented United States generally accepted accounting principles regarding employee benefits, 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 discount rate. The discount rate used for the calculation of the actuarial liability for employee benefits was made on the basis of the Government debentures in Israel, with the addition of a fixed spread curve of corporate debentures with an international AA rating, which corresponds to the duration of the liability for employee benefits.

Since the beginning of the year there have been 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 value¹ and financing profit for the coming year.

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, inter alia, 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 value structure to changes in interest, and therefore, the computation is made without altering the asset and liability structure.

The summary of exposures to unexpected changes in interest at Group level (before tax and in NIS millions) *:

Scenario	Potential change in economic value as a result of scenario								
	30 June 2017			30 June 2016			31 December 2016		
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
In Israeli currency:									
Banking portfolio	(362)	145	(26)	(828)	1,052	(92)	(12)	(227)	10
Trading portfolio	(48)	54	(5)	(120)	107	(13)	37	(45)	4
In foreign currency:									
Banking portfolio	(4)	(78)	5	18	(107)	(1)	(42)	(143)	-
Trading portfolio	(25)	(38)	1	25	(43)	1	52	(49)	5

Total	Potential change in annual net income from an increase in interest rate of 1% **					
	30 June 2017		30 June 2016		31 December 2016	
	Israeli currency	Foreign currency	Israeli currency	Foreign currency	Israeli currency	Foreign currency
	332	289	284	196	523	215

* The calculation of exposure to a decrease in interest of 1% is based on a 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.

** In a decrease in the interest rate, a loss is expected of a similar amount.

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

	Exposure in Israeli currency			Exposure in foreign currency		
	30 June 2017					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Exposure of capital to an immediate increase/decrease in interest *	1,294	(1,685)	145	(405)	282	(35)
	30 June 2016					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase of 0.1%
Exposure of capital to an immediate increase/decrease in interest *	434	(707)	54	(377)	288	(43)
	31 December 2016					
	Increase of 1%	Decrease of 1%	Increase of 0.1%	Increase of 1%	Decrease of 1%	Increase 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 30 June 2017 is estimated to be a decrease in the value of the assets amounting to NIS 149 million (NIS 120 million at 30 June 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 benefits standard, according to which the capital adequacy ratio is computed.

Sensitivity of the fair value of assets and liabilities to interest

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

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

	30 June 2017					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	284,124	47,568	58,274	10,759	9,529	410,258
Amounts receivable in respect of derivative financial and off-balance sheet instruments	261,183	6,996	187,253	62,772	26,185	544,389
Financial liabilities (a)	237,207	54,442	85,093	12,813	6,922	396,477
Amounts payable in respect of derivative financial and off-balance sheet instruments	280,958	11,036	162,663	61,110	29,621	545,388
Net fair value of financial instruments	27,142	(10,914)	(2,229)	(392)	(829)	12,778
	30 June 2016					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	268,086	53,102	71,064	7,244	9,863	409,359
Amounts receivable in respect of derivative financial and off-balance sheet instruments	267,056	7,461	218,270	52,116	43,143	588,046
Financial liabilities (a)	223,985	60,170	89,699	13,119	8,637	395,610
Amounts payable in respect of derivative financial and off-balance sheet instruments	288,517	8,867	199,973	46,772	44,879	589,008
Net fair value of financial instruments	22,640	(8,474)	(338)	(531)	(510)	12,787

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

30 June 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%	26,253	(9,393)	(2,773)	(424)	(835)	12,828	50	0.39
Immediate corresponding increase of 0.1%	27,056	(10,743)	(2,277)	(393)	(830)	12,813	35	0.27
Immediate corresponding decrease of 1%	27,967	(12,915)	(1,793)	(385)	(823)	12,051	(727)	(5.69)

30 June 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%	21,263	(6,789)	(785)	(547)	(505)	12,637	(150)	(1.17)
Immediate corresponding increase of 0.1%	22,491	(8,288)	(388)	(533)	(511)	12,771	(16)	(0.13)
Immediate corresponding decrease of 1%	24,238	(10,558)	16	(514)	(514)	12,668	(119)	(0.93)

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 30 June 2017 is estimated to be a decrease in the value of the assets amounting to NIS 149 million (NIS 120 million at 30 June 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 benefits, according to which the capital adequacy ratio is computed.
- (b) Of this, the effect of compound financial assets: immediate corresponding increase of 1% - NIS (260) million (at 30 June 2016 NIS (169) million and at 31 December 2016 NIS (345) million), an immediate corresponding decrease of 1% - NIS 182 million (at 30 June 2016 - NIS 56 million and at 31 December 2016 - NIS 171 million).
A corresponding increase of 2% - NIS (545) million (31 December 2016 - NIS (701) million), a corresponding decrease of 2% - NIS 286 million (At 31 December 2016 - NIS 401 million, respectively).

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

Exposure to interest rate fluctuations

	30 June 2017										30 June 2016				31 December 2016			
	On demand up to one month	Over one month to three months	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	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)	206,421	11,723	26,001	19,904	9,876	7,628	1,637	366	568	284,124	2.88	0.62	268,086	2.66	1.02	278,940	3.30	0.56
Derivative financial instruments (excluding option:)	57,083	74,484	36,587	38,090	22,287	24,578	321	55	-	253,485	-	1.51	261,555	-	1.48	247,093	-	1.50
Options (in terms of the underlying asset) (c)	1,393	2,053	2,419	1,810	1	5	17	-	-	7,698	-	-	5,501	-	-	5,076	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	264,897	88,260	65,007	59,804	32,164	32,211	1,975	421	568	545,307	2.88	1.02	535,142	2.66	1.23	531,109	3.30	0.99
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	189,676	7,197	18,107	14,620	5,213	2,342	52	-	-	237,207	0.99	0.35	223,985	0.65	0.55	231,563	1.00	0.42
Derivative financial instruments (excluding option:)	66,298	73,896	44,693	40,333	24,781	24,630	327	24	-	274,982	-	1.43	284,831	-	1.38	273,646	-	1.44
Options (in terms of the underlying asset) (c)	1,132	1,336	2,879	481	5	12	106	-	-	5,951	-	-	3,666	-	-	2,905	-	-
Off-balance sheet financial instruments	-	-	25	-	-	-	-	-	-	25	-	0.50	20	-	0.50	24	-	0.50
Total fair value	257,106	82,429	65,704	55,434	29,999	26,984	485	24	-	518,165	0.99	0.92	512,502	0.65	1.01	508,138	1.00	0.97
Financial instruments, net																		
Exposure to interest rate changes in the segment	7,791	5,831	(697)	4,370	2,165	5,227	1,490	397										
Accumulated exposure in the segment	7,791	13,622	12,925	17,295	19,460	24,687	26,177	26,574										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	1,428	2,481	11,021	13,673	9,989	5,290	2,060	1,599	27	47,568	2.58	3.73	53,102	1.97	3.97	48,232	2.44	3.82
Derivative financial instruments (excluding option:)	328	796	1,347	2,639	849	1,037	-	-	-	6,996	-	2.40	7,461	-	2.78	6,790	-	2.65
Options (in terms of the underlying asset)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments (c)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	1,756	3,277	12,368	16,312	10,838	6,327	2,060	1,599	27	54,564	2.58	3.56	60,563	1.97	3.82	55,022	2.44	3.68
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	645	5,332	6,102	12,909	8,661	3,606	888	-	-	38,143	0.71	2.73	43,078	1.16	3.01	38,888	0.82	2.91
Derivative financial instruments (excluding option:)	613	525	2,765	3,668	1,435	1,885	-	-	-	10,891	-	2.56	8,748	-	2.87	8,391	-	2.78
Options (in terms of the underlying asset) (c)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	145	-	-	-	-	-	-	145	-	-	119	-	-	135	-	-
Total fair value	1,258	5,857	9,012	16,577	10,096	5,491	888	-	-	49,179	0.71	2.68	51,945	1.16	2.98	47,414	0.82	2.88
Financial instruments, net																		
Exposure to interest rate changes in the segment	498	(2,580)	3,356	(265)	742	836	1,172	1,599										
Accumulated exposure in the segment	498	(2,082)	1,274	1,009	1,751	2,587	3,759	5,358										

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments. In the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has past totaling NIS 1,064 million.

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

(c) Average duration less than 0.05 years.

Exposure to interest rate fluctuations (contd.)

	30 June 2017										30 June 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	effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
	NIS millions										(%)	(Years)	(%)	(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)	39,116	12,419	8,642	7,078	3,843	5,872	971	145	476	78,562	1.52	1.05	88,171	1.79	1.26	85,885	2.48	1.26
Of which; compound financial instruments	2,982	865	719	1,088	840	1,678	576	56	-	8,804	2.60	3.49	10,909	2.36	2.89	10,029	2.83	3.44
Derivative financial instruments (excluding options)	97,417	64,965	63,890	15,918	6,969	17,315	468	78	-	267,020	-	0.93	305,032	-	0.84	291,443	-	0.96
Options (in terms of the underlying asset) (d)	2,628	2,064	4,087	100	(28)	14	325	-	-	9,190	-	-	8,497	-	-	6,919	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value before complex financial assets	139,161	79,448	76,619	23,096	10,784	23,201	1,764	223	476	354,772	1.52	0.93	401,700	1.79	0.91	384,247	2.48	1.01
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	78,026	10,524	12,676	2,884	285	25	39	1	5	104,465	0.60	0.17	111,081	0.94	0.26	113,337	1.08	0.18
Derivative financial instruments (excluding options)	71,822	69,601	49,948	23,532	8,803	19,927	604	345	-	244,582	-	1.16	281,435	-	1.02	263,660	-	1.19
Options (in terms of the underlying asset) (d)	1,181	1,518	2,814	2,739	58	495	-	-	-	8,805	-	-	10,181	-	-	9,090	-	-
Off-balance sheet financial instruments	-	-	7	-	-	-	-	-	-	7	-	0.50	8	-	0.50	14	-	0.50
Total fair value	151,029	81,643	65,445	29,155	9,146	20,447	643	346	5	357,859	0.60	0.84	402,705	0.94	0.79	386,101	1.08	0.87
Financial instruments, net																		
Exposure to interest rate fluctuations	(11,868)	(2,195)	11,174	(6,059)	1,638	2,754	1,121	(123)										
Accumulated exposure in the segment	(11,868)	(14,063)	(2,889)	(8,948)	(7,310)	(4,556)	(3,435)	(3,558)										
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)	246,965	26,623	45,664	40,655	23,708	18,790	4,668	2,110	5,349	414,532	1.86	1.06	412,600	2.26	1.45	416,301	2.78	1.09
Derivative financial instruments (excluding options)	154,828	140,245	101,824	56,647	30,105	42,930	789	133	1,598	529,099	-	1.23	575,491	-	1.16	547,007	-	1.23
Options (in terms of the underlying asset) (d)	4,021	4,117	6,506	1,910	(27)	19	342	-	303	17,191	-	-	14,210	-	-	12,132	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	405,814	170,985	153,994	99,212	53,786	61,739	5,799	2,243	7,250	960,822	1.86	1.13	1,002,301	2.26	1.26	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)	268,347	23,053	36,885	30,413	14,159	5,973	979	1	1,148	380,958	0.34	0.54	379,451	0.91	0.75	385,128	0.93	0.60
Derivative financial instruments (excluding option:	138,733	144,022	97,406	67,533	35,019	46,442	931	369	1,713	532,168	-	1.33	576,388	-	1.23	547,167	-	1.34
Options (in terms of the underlying asset) (d)	2,313	2,854	5,693	3,220	63	507	106	-	83	14,839	-	-	14,059	-	-	11,995	-	-
Off-balance sheet financial instruments	-	-	177	-	-	-	-	-	190	367	-	0.04	337	-	0.05	353	-	0.06
Total fair value	409,393	169,929	140,161	101,166	49,241	52,922	2,016	370	3,134	928,332	0.34	0.98	970,235	0.91	1.02	944,643	0.93	1.02
Financial instruments, net																		
Exposure to interest rate fluctuations	(3,579)	1,056	13,833	(1,954)	4,545	8,817	3,783	1,873										
Accumulated exposure in the segment	(3,579)	(2,523)	11,310	9,356	13,901	22,718	26,501	28,374										
In addition, exposure to interest rates in respect of liabilities for employee benefits, gross - pension and severance pay																		
	100	200	899	1,219	1,290	3,330	5,275	4,349	-	16,662	2.60	15.32	17,465	2.15	15.95	16,948	2.23	15.49

Exposure to interest rate fluctuations (contd.)

- (a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments. In the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has past totaling NIS 1,064 million.
- (b) Weighted average according to fair value of effective 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 3.60 years, the average duration of total liabilities reaches 2.81 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 1.25%. The change in fair value in total assets is an increase of NIS 1,645 million and in total liabilities, a decrease of NIS 2.884 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 at:

	30 June 2017			30 June 2016		31 December 2016			
		CPI- linked	Foreign currency and foreign currency linked	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)	1.02	3.56	0.93	1.23	3.82	0.91	0.99	3.68	1.01
Average duration of liabilities (a)	0.92	2.68	0.84	1.01	2.98	0.79	0.97	2.88	0.87
Duration gap in years	0.10	0.88	0.09	0.22	0.84	0.12	0.02	0.80	0.14
IRR gap (%)	1.89	1.87	0.92	2.01	0.81	0.85	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 2.81 years, and the internal rate of return gap (hereinafter "IRR") amounts to 1.25%.

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 3.60 years, and the IRR gap amounts to 1.25%.

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 NIS 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 NIS, 0.95 years, and in foreign currency, 0.88 years, and the difference in the IRR amounts to 2.21% and (0.53)%, respectively.

B. Basis/exchange rate risk

Basis risk is the risk deriving from exposure of the value of the assets and liabilities to changes in inflation and the exchange rate. Exposure to linkage and exchange rate is measured as a percentage of the exposed balance at the Group level. The exposed capital includes the shareholders' equity and certain reserves, net of fixed assets and investments in associates.

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		
	30 June		31 December
	2017	2016	2016
	%		
Unlinked	(9.9)	(20.9)	(19.0)
CPI-linked *	8.9	19.1	17.7
Foreign currency	1.0	1.8	1.3

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

Since the beginning of the year, the percentage of capital invested on average over the year in the index-linked segment was 16%. During the year, this percentage ranged from a surplus of 8.8% 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.

Since the beginning of the year, the Group has 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 coverage ratio ("LCR"), while making adjustments to the Israeli economy.

Leumi maintains a proper liquidity level by investing the nostro portfolio in quality and dispersed assets in NIS 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 Bank (the regulatory model) 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 six months ended 30 June	For the year ended 31 December	
	2017	2016	2016
	%		
a. In consolidated data			
Liquidity coverage ratio	127	127	132
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	80	80
b. In data of the Bank			
Liquidity coverage ratio	127	125	130
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	80	80

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, an integrative overview focusing on risk with the potential for significant implications, and risk management in material products and projects.

Since the beginning of the year, there were no significant changes in the organizational structure, policy or corporate governance of operational risk management.

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 is operated in Leumi headed by the Chief Compliance Officer, who is responsible, *inter alia*, 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 contact 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, the Internal Revenue Code in the United States was amended, which includes a reporting regime that 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 – Common Reporting Standard (CRS)

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, which, as of the date of writing, is expected to be in force in Israel on 1 October 2017. 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.

Legal Risks

This chapter is set out in greater detail in the Board of Directors and Management Report for 2016 (pages 91-92), 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.

Emerging risks

Emerging risks are risks whose characteristics and level of severity vary according to the changes occurring in recent years in the competitive environment, consumer environment, regulatory environment and technological environment. Notable among these risks are cyber risk, technological risk and conduct risk.

In addition, the environment of the Bank's activity has been heavily impacted in recent years by risks related to regulation and legislation, a volatile macroeconomic environment, changes occurring in the business, including the transition to "New Banking", based on the digital and social and consumer trends.

Since the beginning of the year, there have been no significant changes in the risk and threat map or in the business environment in which the Bank operates in Israel and around the world.

For further information, see Chapter on Risk Review in the Board of Directors and Management Report for 2016.

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 bank, as detailed in Note 1 to the annual financial statements 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 at 31 December 2016 were as follows: allowance for credit losses and the classification of problem debts, derivative instruments, securities, liabilities regarding employee benefits, liabilities in respect of legal claims, buildings and equipment, intangible assets and taxes on income.

Liabilities regarding employee benefits

The amounts of the liabilities for pension are calculated according to actuarial models. The rate of discounting used in the calculation of the Bank's actuarial liability for employee benefits 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 spread curve of corporate debentures rated AA and above, which matches the average duration of the liabilities for employee benefits.

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 discount rate and/or the rate of increase in pay will cause a change in the level of the Bank's liabilities.

The actuary's valuation of the employee benefits may be found on the Israel Securities Authority's website: www.magna.isa.gov.il.

As of 30 June 2017, the balance of accumulated other comprehensive income in respect of employee benefits totaled a negative balance of NIS 2,254 million, after the effect of tax, a decrease of NIS 85 million after the effect of tax compared with 31 December 2016.

The balance of the liability for employee benefits at 30 June 2017 at the discount rate on the basis of corporate debentures in Israel ("deep market for the approach of the Israel Securities Authority") is NIS 50 million more 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 banks. 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:

- Banks 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 has been carrying out a validation and update of material control processes and checks on 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, 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, at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its financial statements, in accordance with the directives of the Supervisor of Banks on reporting to the public and at the time required in these directives.

As a result of the start of use of the Management of Impaired Debts in Leumi system for managing the Bank's impaired debts in the first quarter of 2016, there were changes in the automation of the processes of categorization of problem debts and calculation of the cost for credit losses, and therefore, there was a change in the Bank's internal control on the financial report. During the course of preparation of Financial Reports for this quarter, key controls were implemented relating to the completeness of the data and the reasonableness of the results. In the event that discrepancies are discovered in them, the Bank takes steps to correct them as quickly as possible.

Changes in internal control

Apart from that said above, during the quarter ended 30 June 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-June 2017, the Board of Directors held 11 plenary meetings and 35 committee meetings.

At the Meeting of the Board of Directors that took place on 14 August 2017, it was decided to approve and publish the audited consolidated financial statements of the Group at 30 June 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 '

David Brodet

Chairman of the Board of Directors

Rakefet Russak-Aminoach

President and Chief Executive Officer

14 August 2017

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi of Israel Ltd. (the "Bank") for the quarter ended 30 June 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.

14 August 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 of Israel Ltd. (the "Bank") for the quarter ended 30 June 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.

14 August 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 of Israel Ltd. (the "Bank") for the quarter ended 30 June (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.

14 August 2017

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

Joint Auditors' Review Report to the Shareholders of Bank Leumi of Israel Ltd.

Introduction

We have reviewed the accompanying financial information of Bank Leumi of Israel Ltd. and its subsidiaries (hereinafter: "the Bank"), comprising the condensed consolidated interim balance sheet as of 30 June, 2017 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the six-month and three-month periods ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for this interim period based on our review.

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

14 August 2017

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Profit and Loss
for the period ended 30 June 2017

		For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
		2017	2016	2017	2016	2016
		Unaudited		Unaudited		Audited
	Note	NIS millions				
Interest income	2	2,887	2,704	5,206	4,629	9,552
Interest expenses	2	722	670	1,168	940	2,026
Net interest income	2	2,165	2,034	4,038	3,689	7,526
Expenses (income) for credit losses	6, 13	42	(154)	143	(277)	(125)
Net interest income, after expenses in respect of credit losses		2,123	2,188	3,895	3,966	7,651
Noninterest income						
Noninterest financing income	3	197	534	452	558	1,282
Commissions		1,007	989	2,025	1,977	3,967
Other income		16	15	30	35	159
Total non-interest income		1,220	1,538	2,507	2,570	5,408
Operating and other expenses						
Salaries and related expenses		1,276	1,546 (a)	2,567	2,788 (a)	5,422
Maintenance and depreciation of buildings and equipment		398	425 (a)	833	819 (a)	1,697
Other expenses		346	384 (a)	670	738 (a)	1,461
Total operating and other expenses		2,020	2,355	4,070	4,345	8,580
Profit before tax		1,323	1,371	2,332	2,191	4,479
Tax expense		456	407	844	778	1,717
Profit after taxes		867	964	1,488	1,413	2,762
Bank's share in profits of associate companies after tax		15	16	25	35	66
Net income :						
Before attribution to non-controlling interests		882	980	1,513	1,448	2,828
Due to non-controlling interests		(6)	(10)	(15)	(19)	(37)
Due to shareholders of the Bank		876	970	1,498	1,429	2,791
Basic and diluted earnings per share (in NIS)						
Basic earnings due to shareholders of the Bank		0.57	0.64	0.98	0.95 (b)	1.85
Diluted earnings due to shareholders of the Bank		0.57	0.64	0.98	0.95 (b)	1.84

(a) Reclassified.

(b) Restated.

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

David Brodet
Chairman of the
Board of Directors

Omer Ziv
First Executive Vice President,
Head of Finance Division

Rakefet Russak-Aminoach
President and Chief Executive Officer

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

Date of approval of the financial statements: 14 August 2017

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Comprehensive Income
for the period ended 30 June 2017

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
	NIS millions				
Net income before attribution to non-controlling interests	882	980	1,513	1,448	2,828
Less net income due to non-controlling interests	6	10	15	19	37
Net income due to shareholders of the Bank	876	970	1,498	1,429	2,791
Other comprehensive income (loss) before taxes:					
Adjustments for presenting securities available for sale at fair value, net	(23)	400	(3)	556	(281)
Adjustments for translation of financial statements, net (a), after effect of hedges (b)	(46)	2	(34)	(10)	(11)
Adjustments of liabilities in respect of employee benefits (c)	(639)	(833)	(137)	(1,705)	(928)
Bank's share in other comprehensive income (loss) of associate companies	(3)	8	(11)	(1)	(20)
Other comprehensive loss before taxes	(711)	(423)	(185)	(1,160)	(1,240)
Relevant tax effect	215	204	(25)	392	376
Other comprehensive income loss before attribution to non-controlling interests, after taxes	(496)	(219)	(210)	(768)	(864)
Less other comprehensive income due to non-controlling interests	-	-	-	-	-
Other comprehensive income loss due to shareholders of the Bank, after taxes	(496)	(219)	(210)	(768)	(864)
Other comprehensive income before attribution to non-controlling interests	386	761	1,303	680	1,964
Less comprehensive income due to non-controlling interests	6	10	15	19	37
Other comprehensive income due to shareholders of the Bank	380	751	1,288	661	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 – gains (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 accumulated other comprehensive income.

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

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Balance Sheet as at 30 June 2017

		30 June 2017	30 June 2016	31 December 2016
		Unaudited		Audited
		NIS millions		
Assets	Note			
Cash and deposits with banks		69,352	57,881	74,757
Securities (a)(b)	5	78,470	84,872	77,201
Securities borrowed or purchased under agreements to resell		1,031	1,476	1,284
Loans to the public	6, 13	267,786	269,602	265,450
Allowance for credit losses	6, 13	(3,302)	(3,554)	(3,537)
Loans to the public, net		264,484	266,048	261,913
Loans to governments		619	480	642
Investments in associate companies		883	923	901
Buildings and equipment		2,954	3,042	3,147
Intangible assets and goodwill		16	17	17
Derivative assets	11	11,361	12,999	10,654
Other assets (a)		7,797	8,662	8,087
Total assets		436,967	436,400	438,603
Liabilities and equity				
Deposits from the public	7	342,766	339,998	346,854
Deposits from banks		4,330	4,165	3,394
Deposits from governments		625	686	900
Securities lent or sold under repurchase agreements		244	789	539
Bonds, debentures and subordinated notes		22,337	24,151	22,640
Derivative liabilities	11	12,078	13,743	10,677
Other liabilities (a)(c)		21,694	22,455	21,885
Total liabilities		404,074	405,987	406,889
Non-controlling interests		372	349	367
Total equity due to shareholders of the Bank	9	32,521	30,064	31,347
Total equity		32,893	30,413	31,714
Total liabilities and equity		436,967	436,400	438,603

(a) For details of amounts measured at fair value, see Note 15A.

(b) For details of securities pledged to lenders, see Note 5.

(c) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 523 million (at 30 June 2016 – NIS 455 million, at 31 December 2016 – NIS 488 million).

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

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity
for the period ended 30 June 2017

	For the three months ended 30 June 2017 (Unaudited)								
	Capital reserves			Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Premium	Share-based payment transactions and others ^(a)						
	(NIS millions)								
Balance at 31 March 2017	7,109	1,722	36	8,867	(2,026)	25,414	32,255	366	32,621
Net income for the period	-	-	-	-	-	876	876	6	882
Issuance of shares	1	7	(8)	-	-	-	-	-	-
Benefit to employees for share-based payment transactions	-	-	10	10	-	-	10	-	10
Other comprehensive income (loss), net, after tax	-	-	-	-	(496)	-	(496)	-	(496)
Dividend paid	-	-	-	-	-	(124)	(124)	-	(124)
Balance at 30 June 2017	7,110	1,729	38	8,877	(2,522)	26,166	32,521	372	32,893

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity (cont'd)
for the period ended 30 June 2017

	For the three months ended 30 June 2016 (Unaudited)								
	Capital reserves			Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Premium	Share-based payment transactions and others ^(a)						
	(NIS millions)								
Balance at 31 March 2016	7,108	1,716	43	8,867	(1,997)	22,443	29,313	340	29,653
Net income for the period	-	-	-	-	-	970	970	10	980
Issuance of shares	1	6	(7)	-	-	-	-	-	-
Other comprehensive income (loss), net, after tax	-	-	-	-	(219)	-	(219)	-	(219)
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(1)	(1)
Balance at 30 June 2016	7,109	1,722	36	8,867	(2,216)	23,413	30,064	349	30,413

(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 of Israel Ltd. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity (cont'd)
for the period ended 30 June 2017

	For the six months ended 30 June 2017 (Unaudited)								
	Capital reserves			Total share capital and reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Premium	Share-based payment transactions and others ^(a)						
	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 income for the period	-	-	-	-	-	1,498	1,498	15	1,513
Issuance of shares	1	7	(8)	-	-	-	-	-	-
Benefit to employees for share-based payment transactions	-	-	10	10	-	-	10	-	10
Other comprehensive income (loss), net, after tax	-	-	-	-	(210)	-	(210)	-	(210)
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Dividend paid	-	-	-	-	-	(124)	(124)	-	(124)
Balance at 30 June 2017	7,110	1,729	38	8,877	(2,522)	26,166	32,521	372	32,893

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity (cont'd)
for the period ended 30 June 2017

	For the six months ended 30 June 2016 (Unaudited)								
	Capital reserves								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	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 income for the period	-	-	-	-	-	1,429	1,429	19	1,448
Issuance of shares	50	593	(7)	636	-	-	636	-	636
Other comprehensive income (loss), net, after tax	-	-	-	-	(768)	-	(768)	-	(768)
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Balance at 30 June 2016	7,109	1,722	36	8,867	(2,216)	23,413	30,064	349	30,413

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Statement of Changes in Shareholders' Equity (cont'd)
for the period ended 30 June 2017

	For the year ended 31 December 2016 (Audited)								
	Capital reserves								
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance at 31 December 2015	7,059	1,129	43	8,231	(1,448)	21,984	28,767	340	29,107
Net income for the period	-	-	-	-	-	2,791	2,791	37	2,828
Adjustments in respect of associate companies, net	-	-	-	-	-	17	17	-	17
Other comprehensive income (loss), net, after tax	-	-	-	-	(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 of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Cash Flows
for the period ended 30 June 2017

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Cash flows generated by operating activity					
Net income for the period	882	980	1,513	1,448	2,828
Adjustments:					
Group share in undistributed profits of associate companies (a)	(15)	(12)	(1)	(6)	(28)
Depreciation of buildings and equipment (including impairment)	159	175	342	320	663
Expenses (income) for credit losses	42	(154)	143	(277)	(125)
Profit from sale of loan portfolio	-	(14)	-	(14)	(44)
Gains on sale of securities available for sale (including impairment)	(70)	(474)	(113)	(565)	(857)
Realized and unrealized gains from adjustment to fair value of securities held for trading	(4)	(135)	182	(121)	116
Gains on realization of investment in associate companies	-	-	-	-	(7)
Gains on realization of buildings and equipment	(2)	(1)	(2)	-	(66)
Provision for impairment of shares available for sale	-	-	-	1	6
Expenses deriving from share-based payment transactions	-	-	-	-	10
Deferred taxes, net	3	(367)	(69)	(540)	43
Severance pay and pension - increase in surplus of provision over fund	(626)	48	(122)	234 (b)	288
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	55	124	62	284	312
Interest not yet paid for debentures and subordinated notes	286	281	448	369	782
Effect of exchange-rate differences on balances of cash and cash equivalents	(107)	(9)	480	218	591
Other, net	(1)	(13)	(1)	(2)	-
Net change in current assets:					
Deposits in banks	(615)	(1,705)	(652)	(1,328) (b)	(207)
Loans to the public	(489)	(1,253)	(4,373)	(4,419)	(2,942)
Loans to governments	1	(68)	23	(27)	(189)
Securities borrowed or purchased under agreements to resell	(128)	145	253	288	480
Derivative assets	(330)	152	(711)	(1,749)	595
Securities held for trading	(1,728)	(1,156)	(1,647)	1,007	3,322
Other assets	297	(140)	47	(78)	(223)
Net change in current liabilities:					
Deposits from banks	(88)	(333)	1,229	318	(447)
Deposits from the public	1,885	9,216	(2,065)	11,559	18,358
Deposits from governments	(124)	(136)	(216)	(58)	156
Securities lent or sold under agreements to repurchase	(237)	(56)	(295)	(149)	(399)
Derivative liabilities	792	(275)	1,434	2,573	(314)
Other liabilities	362	814	(143)	518 (b)	369
Net cash generated by operating activity	200	5,634	(4,254)	9,804	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 of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Cash Flows (cont.)
for the period ended 30 June 2017

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Cash flows generated by investment activity					
Acquisition of securities available for sale	(14,024)	(24,453)	(42,045)	(59,475)	(92,212)
Proceeds from sale of available for sale securities	5,448	8,226	19,505	19,730	35,438
Proceeds from redemption of available for sale securities	9,690	11,793	22,381	23,913	45,457
Proceeds from redemption of bonds held to maturity	23	-	80	-	-
Proceeds from sale of loan portfolio	-	248	-	248	2,723
Proceeds from realization of investment in associate companies	9	-	9	-	73
Acquisition of buildings and equipment	(104)	(89)	(319)	(356)	(634)
Proceeds from realization of buildings and equipment	6	1	9	5	99
Proceeds from realization of assets transferred to Group ownership	-	-	2	2	2
Central Severance Payment Fund	(10)	-	279	-	173
Net cash for investment activity	1,038	(4,274)	(99)	(15,933)	(8,881)
Cash flows generated by financing activity					
Issue of debentures and subordinated notes	-	-	-	4,442	4,442
Redemption of debentures and subordinated notes	(638)	(940)	(751)	(1,968)	(3,892)
Dividend paid to shareholders	(124)	-	(124)	-	-
Dividend paid to external shareholders of consolidated companies	-	(1)	(10)	(10)	(10)
Net cash for financing activity (from financing activity)	(762)	(941)	(885)	2,464	540
Increase (decrease) in cash and cash equivalents	476	419	(5,238)	(3,665)	14,730
Balance of cash and cash equivalents at beginning of period	65,968	53,819	72,269	58,130 (a)	58,130
Effect of movements in exchange rates on cash balances and cash equivalents	107	9	(480)	(218)	(591)
Balance of cash and cash equivalents at end of period	66,551	54,247	66,551	54,247	72,269

(a) Reclassified.

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Cash Flows (cont.)
for the period ended 30 June 2017

Interest and tax paid and/or received and dividends received

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Interest received	2,516	2,395	5,175	4,959	9,864
Interest paid	(52)	(810)	(418)	(1,341)	(3,041)
Dividends received	2	7	34	34	48
Tax paid on income	(549)	(249)	(901)	(650)	(1,629)

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

For the six months ended 30 June 2017:

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

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	<u>Page</u>
1 Significant accounting policies	95
2 Interest income and expenses	104
3 Noninterest income and expenses	105
4 Accumulated other comprehensive income (loss)	106
5 Securities	110
6 Credit risk, credit to the public and allowance for credit losses	124
7 Deposits of the public	129
8 Employee benefits	130
9 Capital, capital adequacy, leverage and liquidity	138
10 Contingent liabilities and special commitments	147
11 Activity in derivative instruments – scope, credit risks and repayment dates	150
12 Regulatory operating segments	160
13 Additional information on credit risk, loans to the public and the allowance for credit losses	174
14 Assets and liabilities by linkage basis	196
15 Balances and fair value estimates of financial instruments	199
16 Events after the balance sheet date	217

Note 1 - Significant Accounting Policies

A. Basis for preparation of the financial statements

1. Reporting principles

The condensed consolidated interim financial statements at 30 June 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 bank. 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 at 31 December 2016, except as described in paragraph B below. These reports are to be read in conjunction with the annual financial statements at 31 December 2016 and the accompanying notes. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 15 August 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-to-maturity bond portfolio of a foreign subsidiary an amount of NIS 957 million. Pursuant to Bank of Israel directives, when transferring bonds from the available-for-sale securities portfolio to the held-to-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 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 banks 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 banks 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 banks 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 banks in Israel under US GAAP related to taxes on income". In accordance with the circular, a bank 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 banks 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 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

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 noninterest financing income. In light of this, the new directives will not affect most of the Bank's income.

The provisions of the circular are to be applied prospectively as of 1 January, 2018, with the cumulative effect charged to capital.

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: 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. In the FAQ file, it was clarified that in order that a source of repayment will be recognized as a primary source of repayment, the Bank is to show that the debtor is expected with a high probability to generate within a reasonable period of time an appropriate cash flow from continued business activity which will be used to make all the repayments required in full that were set forth in the agreement.

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 Banks in accordance with US GAAP

On 13 October 2016, the Banking Supervision Department published a circular entitled "Bank 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 "Fixed Assets Held for Sale and Discontinued Operations".

The main changes are as follows:

Definition of discontinued operations - a component of an entity that has been realized or classified as held for sale and transferred has a material effect on the entity's activities and its financial statements; or business activity which at the date of acquisition was classified as held for sale.

Treatment of an increase in the value of fixed assets held for sale - a gain from an increase in value in respect of any subsequent increase in fair value less costs to sell must be recognized, but not beyond the cumulative impairment recognized since the asset was classified as held for sale. On the date of sale, the balance of profit or loss not previously recognized must be recognized.

- 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".

The main change relates to the manner of presentation of credit-granting activity and the provision of deposits. Credit granted by a financial institution will generally be classified as investment activity unless it is created or acquired for resale. Changes in deposits received in a financial institution will be classified as financing activities.

- Interim Reporting in accordance with Codification Topic 270 on "Interim Reporting".

The main change is the issue of recognition and measurement - as a rule, each interim period should be regarded as an integral part of the annual period to which it belongs. In addition, tax expenses and benefits relating to ordinary operations will be taken into account at the annual effective tax rate. Tax expenses or benefits arising from a change in the tax rate will be recognized in profit or loss from continuing operations in the interim period in which the change in the tax rate was made. The effective annual tax rate for the subsequent interim periods will be revalued according to the updated tax rate.

- 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".

ASC460 specifies the types of transactions applicable, the basis for recognition, measurement, and measurement in subsequent periods.

On the date of initial recognition, the liability for a guarantee will be recorded at fair value. In the event that at this date the guarantor is required to recognize a provision for a contingent loss for the guarantee in accordance with ASC450, the liability will be set as the larger of the fair value and the amount of the said provision. When the guarantee is measured at the initial recognition date is in accordance with ASC450, the subsequent measurement will also be performed in accordance with ASC450.

The provisions of the circular are to be applied as of 1 January 2018. Upon initial application, a bank 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.

5. Standards update on share-based payment

In May 2017, the US Accounting Standards Board issued Standard Update No. 2017-09 of the Codification, which constitutes an amendment to the provisions of ASC 718 on "Share-Based Payment." The amendment is intended to clarify when it is necessary to address the change in the terms of a share-based payment grant as an amendment and to apply an accounting amendment.

In accordance with the amendment in respect of changes in the plan, an accounting amendment is required unless the fair value, vesting conditions or classification of the grant (equity or liability) are identical before and after the amendment.

However, an accounting amendment should be applied for changes made as a result of laws or regulations or as a result of the new standards on revenue recognition, leases or credit losses.

It is required to apply this change prospectively from 1 January, 2018. Earlier application is permitted.

6. Regulatory update on receivables

In May 2017, the US Accounting Standards Board published Standard Update No. 2017-08 of the Codification of the Reduction of Premium on Debentures Purchased with an Early Repayment Option (hereinafter: the "Update"), which constitutes an amendment to Sub-Topic 310-20 in the Codification on Receivables - Non-refundable commissions and other costs (previously FAS 91) The update reduces the period of amortization of premiums on debentures purchased, which: (1) have an explicit and unconditional early repayment option, and (2) can be repaid early at a fixed price and on a defined date. In accordance with existing directives prior to the update, such premiums are generally deducted as a yield adjustment over the contractual period of the debenture. Under the amendment, the premium will be amortized over a shorter period - until the earliest early repayment date (unless the bank has implemented the provisions in sub-section 310-20 in the Codification which allow it to estimate early repayments of principal under certain circumstances).

It is required to apply this change prospectively from 1 January, 2018.

Note 2 – Interest income and expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	Unaudited			
	NIS millions			
A. Interest income (a)				
From loans to the public	2,640	2,456	4,744	4,195
From credit to governments	7	4	12	7
From deposits with Bank of Israel and cash	12	9	25	19
From deposits with banks	25	24	54	39
From securities borrowed or purchased under agreement to resell	1	-	1	1
From debentures (b)	202	211	370	368
Total interest income	2,887	2,704	5,206	4,629
B. Interest expenses (a)				
On deposits of the public	(429)	(388)	(707)	(564)
On deposits from governments	(1)	(1)	(2)	(2)
On deposits from banks	(5)	(3)	(9)	(5)
On securities lent or sold under agreement to repurchase	(1)	-	(1)	(1)
On debentures, bonds and subordinated notes	(286)	(278)	(449)	(368)
Total interest expenses	(722)	(670)	(1,168)	(940)
Total interest income, net	2,165	2,034	4,038	3,689
C. Details of the net effect of hedging derivative instruments on interest income and expenses (c)				
Interest income	(2)	(10)	(12)	(20)
D. Details of accumulated interest income from bonds				
Available for sale	179	193	336	323
For trading	21	18	32	45
To maturity	2	-	2	-
Total included in interest income	202	211	370	368

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 51 million and NIS 103 million for the three-month and six-month period which ended on 30 June 2017, respectively (NIS 53 million and NIS 103 million for the three-month and six-month period which ended on 30 June 2016, respectively).

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

Note 3 – Noninterest income and expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	2017	2016
	Unaudited		Unaudited	
	NIS millions		NIS millions	
A. Noninterest 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)	(770)	380	(1,939)	(500)
Total from activity in derivative instruments	(770)	380	(1,939)	(500)
A.2. From investment in bonds				
Gains from sale of bonds available for sale(f)	33	58	53	71
Losses from sale of bonds available for sale(f)	(3)	(8)	(18)	(12)
Total from investment in bonds	30	50	35	59
A.3. Exchange rate differentials, net	891	(472)	2,450	354
A.4. Gains (losses) from investment in shares				
Gains from sale of shares available for sale (c)(f)	52	483	100	575
Losses from sale of shares available for sale (e)(f)	(12)	(59)	(22)	(70)
Dividend from shares available for sale	2	3	10	5
Total from investment in shares	42	427	88	510
A.5. Profits in respect of loans sold, net (i)	-	14	-	14
Total noninterest financing income in respect of activities not for trading purposes	193	399	634	437
B. Noninterest financing income in respect of activities not for trading purposes				
Realized and unrealized gains (losses) from fair value adjustments of bonds held for trading, net (d)	12	135	(174)	153
Realized and unrealized losses from fair value adjustments of shares held for trading, net	(8)	-	(8)	(32)
Total from trading activities (g) (h)	4	135	(182)	121
Total noninterest financing income in respect of activities not for trading purposes	197	534	452	558

(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) Gain from the sale of Kenon and Kornit of NIS 14 million and NIS 17 million respectively, before tax in the three-month period which ended on 31 March 2017 and gain from the sale of R2NET and Kornit of NIS 30 million and NIS 11 million respectively, in the three-month period which ended on 30 June 2017 (gain from the sale of Dalia in the amount of NIS 61 million in the three-month period which ended on 31 March 2016, gain from the sale of shares in Visa Europe and the Israel Corporation in the amount of NIS 378 million and NIS 87 million, respectively, in the three-month period which ended on 30 June 2016).

(d) Of which: part of the gains (losses) in the amount of NIS 7 million and NIS 12 million for the three-month and six-month period which ended on 30 June 2017, respectively, which relate to bonds held for trading still held at the balance sheet date (NIS 52 million and NIS 100 million for the three-month and six-month period which ended on 30 June 2016, respectively, 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 six-month period which ended on 30 June 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 OCI, after tax

1. Changes in accumulated OCI for the three-month period which ended on 30 June 2017 and 2016

	OCI 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)	Bank's share in OCI of investee companies dealt with on equity basis	Adjustments for employee benefits (c)	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss attributed to shareholders of the Bank
	(NIS millions)						
Balance at 31 March 2016	163	(111)	29	(2,082)	(2,001)	(4)	(1,997)
Net change	275	32	8	(534)	(219)	-	(219)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Balance at 31 March 2017	(75)	(128)	10	(1,837)	(2,030)	(4)	(2,026)
Net change	(16)	(64)	1	(417)	(496)	-	(496)
Balance at 30 June 2017 (Unaudited)	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)

2. Changes in accumulated OCI for the six-month period which ended on 30 June 2017 and 2016

	OCI 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)	Bank's share in other comprehensive income (loss) of investee companies dealt with on equity basis	Adjustments for employee benefits	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss 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	371	(12)	(1)	(1,126)	(768)	-	(768)
Balance at 30 June 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Balance at 31 December 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change	(5)	(113)	(7)	(85)	(210)	-	288
Balance at 30 June 2017 (Unaudited)	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)

- (a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank.
- (b) Gains (losses), net in respect of a net hedge of investment in foreign currency.
- (c) Adjustments for employee benefits in the second quarter of 2017 include an estimate of the cost of the early retirement plan of about NIS 600 million (before tax) that was published in July 2017.

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

A. Changes in accumulated OCI, after tax (cont'd)

3. Changes in accumulated OCI for the year ended 31 December 2016

OCI 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)	Bank's share in OCI of investee companies dealt with on equity basis	Adjustments for employee benefits	Total	Other comprehensive loss attributed to non- controlling interests	Other comprehensive loss 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	(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 Bank.
- (b) Gains (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 OCI, before and after tax

	For the three months ended 30 June					
	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	NIS millions					
Changes in OCI components before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value:						
Unrealized gains (losses) from adjustments to fair value	47	(14)	33	874	(297)	577
reclassified to the statement of profit and loss ^(a)	(70)	21	(49)	(474)	172	(302)
Net change in the period	(23)	7	(16)	400	(125)	275
Translation adjustments ^(b)						
Adjustments for translation of financial statements	(100)	-	(100)	59	-	59
Hedges ^(c)	54	(18)	36	(57)	30	(27)
Net change in the period	(46)	(18)	(64)	2	30	32
Bank's share in OCI of investee companies dealt with under the equity base method	(3)	4	1	8	-	8
Net change in the period	(3)	4	1	8	-	8
Employee benefits						
Actuarial loss (profit) during the period	(703)	245	(458)	(911)	327	(584)
Amortization of actuarial profit (loss) ^(d)	64	(23)	41	78	(28)	50
Net change in the period	(639)	222	(417)	(833)	299	(534)
Total net change in the period	(711)	215	(496)	(423)	204	(219)
Changes in components of other comprehensive income (loss) due to non-controlling interests:	-	-	-	-	-	-
Total net change in the period	(711)	215	(496)	(423)	204	(219)

- (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) Gains (losses), net in respect of a net hedge of investment in foreign currency.
- (d) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further information, see Note 8 – Employee Rights.

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

B. Changes in components of accumulated OCI, before and after tax effect (cont.)

	For the six months ended 30 June					
	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	NIS millions					
Changes in OCI components before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value:						
Unrealized gains (losses) from adjustments to fair value	110	(35)	75	1,120	(381)	739
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss (a)	(113)	33	(80)	(564)	196	(368)
Net change in the period	(3)	(2)	(5)	556	(185)	371
Translation adjustments ^(b)						
Adjustments for translation of financial statements	(259)	-	(259)	(40)	-	(40)
Hedges ^(c)	225	(79)	146	30	(2)	28
Net change in the period	(34)	(79)	(113)	(10)	(2)	(12)
Bank's share in OCI of investee companies dealt with under the equity base method	(11)	4	(7)	(1)	-	(1)
Net change in the period	(11)	4	(7)	(1)	-	(1)
Employee benefits:						
Actuarial profit (loss) in the period	(285)	104	(181)	(1,837)	626	(1,211)
Amortization of actuarial profit (loss) ^(d)	148	(52)	96	132	(47)	85
Net change during the period	(137)	52	(85)	(1,705)	579	(1,126)
Total net change during the period	(185)	(25)	(210)	(1,160)	392	(768)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:	-	-	-	-	-	-
Total net change in the period	(185)	(25)	(210)	(1,160)	392	(768)

- (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) Gains (losses), net in respect of a net hedge of investment in foreign currency.
- (d) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further information, see Note 8 – Employee Rights.

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

B. Changes in components of accumulated OCI, before and after tax (cont.)

	For the year ended 31 December 2016		
	Before tax	Tax effect	After tax
	NIS millions		
Changes in OCI components before attribution to non-controlling interests:			
Adjustments for presentation of securities available for sale at fair value:			
Unrealized gains (losses) from adjustments to fair value	570	(194)	376
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss (a)	(851)	322	(529)
Net change in the year	(281)	128	(153)
Translation adjustments ^(b)			
Adjustments for translation of financial statements	(9)	-	(9)
Hedges ^(c)	(2)	(1)	(3)
Net change in the year	(11)	(1)	(12)
Bank's share in OCI of investee companies dealt with under the equity base method	(20)	-	(20)
Net change in the year	(20)	-	(20)
Employee benefits:			
Actuarial loss (profit) during the period	(1,241)	361	(880)
Amortization of actuarial profit (loss) ^(d)	313	(112)	201
Net change in the year	(928)	249	(679)
Total net change during the year	(1,240)	376	(864)
Changes in components of other comprehensive income (loss) due to non-controlling interests	-	-	-
Total net change in the year	(1,240)	376	(864)

- (a) The amount before tax is reported in the statement of profit and loss under noninterest financing income. See Note 3 – Noninterest 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) Gain (losses), net in respect of a net hedge of investment in foreign currency.
- (d) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further information, see Note 8 – Employee Rights.

Note 5 - Securities

At 30 June 2017 (Unaudited)					
	Balance sheet amount	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
NIS millions					
1. Debentures held to maturity					
Government of Israel	35	35	-	-	35
Foreign governments	340	340	3	(9)	334
Mortgage-backed (MBS)	424	424	1	(7)	418
Total debentures held to maturity	799	799	4	(16)	787
At 30 June 2017 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value (a)
NIS millions			Gains	Losses	
2. Securities available for sale:					
Debentures -					
Government of Israel	36,893	36,995	114	(216)	36,893
Foreign governments	8,648	8,686	2	(40)	8,648
Financial institutions in Israel	24	23	1	-	24
Foreign financial institutions	8,657	8,618	49	(10)	8,657
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	8,105	8,165	17	(77)	8,105
Others in Israel	282	259	23	-	282
Others abroad	2,429	2,412	28	(11)	2,429
	65,038	65,158	234	(354)	65,038
Shares and mutual funds (b)	2,671	2,672	55	(56)	2,671
Total securities available for sale (f)	67,709	67,830	289^(c)	(410)^(c)	67,709

See notes on page 114.

Note 5 - Securities (cont'd)

At 30 June 2017 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized gains 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	7,093	7,086	14	(7)	7,093
Foreign governments	759	762	-	(3)	759
Financial institutions in Israel	254	253	1	-	254
Foreign financial institutions	435	435	1	(1)	435
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	275	273	3	(1)	275
Others in Israel	194	191	3	-	194
Others abroad	429	426	4	(1)	429
	9,439	9,426	26	(13)	9,439
Shares and mutual funds	523	534	4	(15)	523
Total securities held for trading	9,962	9,960	30 (d)	(28) (d)	9,962
Total securities	78,470	78,589	323	(454)	78,458

At 30 June 2016 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value (a)
			Gains	Losses	
NIS millions					
1. Securities available for sale:					
Debentures -					
Government of Israel	42,623	41,959	664	-	42,623
Foreign governments	8,731	8,683	49	(1)	8,731
Financial institutions in Israel	36	34	2	-	36
Foreign financial institutions	7,608	7,590	45	(27)	7,608
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	10,448	10,404	82	(38)	10,448
Others in Israel	540	514	26	-	540
Others abroad	1,862	1,777	85	-	1,862
	71,848	70,961	953	(66)	71,848
Shares and mutual funds (b)	1,962	1,931	57	(26)	1,962
Total securities available for sale			(c)	(c)	
(f)	73,810	72,892	1,010	(92)	73,810

See notes on page 114.

Note 5 - Securities (cont'd)

At 30 June 2016 (Unaudited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	NIS millions				
2. Securities held for trading:					
Debentures -					
Government of Israel	6,368	6,348	21	(1)	6,368
Foreign governments	3,371	3,319	52	-	3,371
Financial institutions in Israel	130	129	1	-	130
Foreign financial institutions	227	226	3	(2)	227
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	461	463	4	(6)	461
Others in Israel	108	105	3	-	108
Others abroad	379	374	8	(3)	379
	11,044	10,964	92	(12)	11,044
Shares and mutual funds	18	19	-	(1)	18
Total securities held for trading	11,062	10,983	92(d)	(13) (d)	11,062
Total securities (e)	84,872	83,875	1,102	(105)	84,872

At 31 December 2016 (Audited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Accumulated other comprehensive income (loss)		Fair value (a)
	NIS millions				
			Gains	Losses	
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
Foreign financial institutions	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			(c)	(c)	
(f)	68,690	68,782	318	(410)	68,690

See notes on page 114.

Note 5 - Securities (cont'd)

At 31 December 2016 (Audited)					
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized gains 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
Foreign financial institutions	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 (e)(f)	77,201	77,284	339	(422)	77,201

Notes:

- (a) Fair value amounts are generally based on market 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 906 million (30 June 2016 - NIS 919 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 25 million at 30 June 2016.
- (f) Amount of NIS 8.7 billion out of the total of foreign currency securities are Supnationals, Sovereign and Agencies (SSA) (30 June 2016 - NIS 8.1 billion, 31 December 2016 - NIS 7.5 billion).

General notes:

Securities lent in the amount of NIS 241 million (30 June 2016 - NIS 797 million, 31 December 2016 - NIS 324 million) are included in "Loans to the public".

Securities pledged to lenders amounted to NIS 3,844 million (30 June 2016 - NIS 4,286 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 maturity. 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 maturity in an unrealized loss position

	30 June 2017 (Unaudited)									
	Less than 12 months (a)					Less than 12 months (b)				
	Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value				
	More than					More than				
	Amortized cost	0-20% (c)	20% -35% (d)	35% (e)	Total	Amortized cost	0-20% (c)	20% -35% (d)	35% (e)	Total
	(NIS millions)									
Bonds										
State of Israel	35	- (f)	-	-	-	-	-	-	-	-
Foreign governments	201	9	-	-	9	4	-	-	-	-
Mortgage-backed securities (MBS)	332	7	-	-	7	-	-	-	-	-
Total securities available for sale	568	16	-	-	16	4	-	-	-	-

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

	30 June 2017 (Unaudited)									
	Less than 12 months (a)(g)					12 months and more (b)(g)				
	Unrealized losses					Unrealized losses				
	More than					More than				
	Fair value	0-20% (c)	20% -35% (d)	35% (e)	Total	Fair value	0-20% (c)	20% -35% (d)	35% (e)	Total
	(NIS millions)									
Bonds										
State of Israel	8,485	216	-	-	216	-	-	-	-	-
Foreign governments	7,120	40	-	-	40	-	-	-	-	-
Financial institutions abroad	5,181	9	-	-	9	17	1	-	-	1
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	5,532	76	-	-	76	43	1	-	-	1
Others abroad	1,002	11	-	-	11	-	-	-	-	-
Shares and mutual funds	1,032	42	-	-	42	170	14	-	-	14
Total securities available for sale	28,352	394	-	-	394	230	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 up to 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 included in capital reserve as part of other comprehensive income, net of the effect of tax.

Note 5 - Securities (cont'd)

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

	30 June 2016 (Unaudited)									
	Less than 12 months (a)(g)					12 months and more (b)(g)				
	Unrealized losses					Unrealized losses				
	More					More				
	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	6,995	- (f)	-	-	-	-	-	-	-	-
Foreign governments	238	1	-	-	1	15	-	-	-	-
Financial institutions abroad	3,905	21	-	-	21	32	6	-	-	6
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	3,854	33	-	-	33	261	5	-	-	5
Others in Israel	3	- (f)	-	-	-	-	-	-	-	-
Shares and mutual funds	-	7	-	-	7	335	19	-	-	19
Total securities available for sale	14,995	62	-	-	62	643	30	-	-	30
	31 December 2016 (Audited)									
	Less than 12 months (a)(g)					12 months and more (b)(g)				
	Unrealized losses					Unrealized losses				
	More					More				
	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 up to 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 included in capital reserve as part of other comprehensive income, net of the effect of tax.

Note 5 - Securities (cont'd)

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

	30 June 2017 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	(a)	Fair value	(a)	Fair value	(a)
	(NIS millions)					
Mortgage-backed securities (MBS)	1,849	(41)	42	(1)	1,891	(42)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	3,105	(34)	-	-	3,105	(34)
Asset-backed securities (ABS)	578	(1)	1	-	579	(1)
Total	5,532	(76)	43	(1)	5,575	(77)

	30 June 2016 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	(a)	Fair value	(a)	Fair value	(a)
	(NIS millions)					
Mortgage-backed securities (MBS)	611	(11)	61	-	672	(11)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	1,797	(12)	161	(4)	1,958	(16)
Asset-backed securities (ABS)	1,446	(10)	39	(1)	1,485	(11)
Total	3,854	(33)	261	(5)	4,115	(38)

	31 December 2016 (Audited)					
	Up to 12 months		Over 12 months		Total	
	Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value		Unrealized losses from adjustments to fair value	
	Fair value	(a)	Fair value	(a)	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 included in capital reserve as part of other comprehensive income, net of the effect of tax.

Note 5 - Securities (cont'd)

Additional information on mortgage-backed securities held to maturity

	At 30 June 2017 (Unaudited)			
	Amortized cost (NIS millions)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
1. Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	251	-	(6)	245
Other mortgage-backed securities	173	1	(1)	173
Total other mortgage-backed securities	424	1	(7)	418
Total mortgage-backed securities (MBS)	424	1	(7)	418
Total mortgage-backed securities held to maturity	424	1	(7)	418

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

	At 30 June 2017 (Unaudited)			
	Amortized cost (NIS millions)	Accumulated other comprehensive income (loss) (a)		Fair value
		Gains	Losses	
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	200	-	(6)	194
Securities issued by FNMA and FHLMC	1,450	-	(34)	1,416
Other securities	798	6	(2)	802
Total mortgage-backed pass-through securities	2,448	6	(42)	2,412
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	3,815	4	(34)	3,785
Other mortgage-backed securities	322	1	-	323
Total other mortgage-backed securities	4,137	5	(34)	4,108
Total mortgage-backed securities (MBS)	6,585	11	(76)	6,520
Asset-backed securities (ABS)				
Credit card receivables	-	-	-	-
Other credit to private persons	-	-	-	-
Credit not to private persons	1	-	-	1
CLO-type debentures	1,579	6	(1)	1,584
Total asset-backed securities	1,580	6	(1)	1,585
Total mortgage-backed and asset-backed debentures available for sale	8,165	17	(77)	8,105

(a) Amounts included in 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)

	At 30 June 2016 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income		Fair value
		(loss) (a)		
		Gains	Losses	
	(NIS millions)			
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	386	3	-	389
Securities issued by FNMA and FHLMC	2,080	19	-	2,099
Other securities	721	1	(11)	711
Total mortgage-backed pass-through securities	3,187	23	(11)	3,199
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	4,874	47	(15)	4,906
Other mortgage-backed securities	478	4	(1)	481
Total other mortgage-backed securities	5,352	51	(16)	5,387
Total mortgage-backed securities (MBS)	8,539	74	(27)	8,586
Asset-backed securities (ABS)				
Credit card receivables	35	-	(1)	34
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	1,825	8	(10)	1,823
Total asset-backed securities	1,865	8	(11)	1,862
Total mortgage-backed and asset-backed debentures available for sale	10,404	82	(38)	10,448

(a) Amounts included in 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)

	At 31 December 2016 (Audited)			
	Amortized cost (NIS millions)	Accumulated other comprehensive income (loss) (a)		Fair value
		Gains	Losses	
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 or guaranteed by FNMA, FHLMC, or GNMA	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 included in 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

	At 30 June 2017 (Unaudited)			Fair value
	Amortized cost (NIS millions)	Unrealized gains from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	
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	73	-	-	73
Total other mortgage-backed securities	73	-	-	73
Total mortgage-backed securities (MBS)	78	-	-	78
Asset-backed securities (ABS)				
Credit card receivables	11	-	-	11
Credit for purchase of vehicle	59	-	-	59
Other credit to private persons	10	-	-	10
Others	115	3	(1)	117
Total asset-backed securities	195	3	(1)	197
Total mortgage-backed and asset-backed debentures held for trading	273	3	(1)	275

(a) Gains (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)

	At 30 June 2016 (Unaudited)			
	Amortized cost	Unrealized gains 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	7	-	-	7
Total mortgage-backed pass-through securities	7	-	-	7
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	158	2	(3)	157
Other mortgage-backed securities	80	1	(1)	80
Total other mortgage-backed securities	238	3	(4)	237
Total mortgage-backed securities (MBS)	245	3	(4)	244
Asset-backed securities (ABS)				
Credit card receivables	12	-	-	12
Credit for purchase of vehicle	69	-	-	69
Other credit to private persons	13	-	-	13
Others	124	1	(2)	123
Total asset-backed securities	218	1	(2)	217
Total mortgage-backed and asset-backed debentures held for trading	463	4	(6)	461

(a) Gains (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.)

	At 31 December 2016 (Audited)			Fair value
	Amortized cost (NIS millions)	Unrealized gains from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	
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)				
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) Gains (losses) charged to profit and loss.

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

A. Debts^a, loans to the public and balance of allowance for credit losses

	30 June 2017 (Unaudited)					
	Loans to the public				Banks and governments	Total
	Commercial	Residential	Other private	Total		
	NIS millions					
Recorded debt balance of debts^a						
Examined on an individual basis	110,004	39	645	110,688	8,657	119,345
Examined on a collective basis ¹	40,050	78,457	38,591	157,098	1,298	158,396
¹ Of which: the allowance was calculated by extent of arrears	945 (c)	78,007	-	78,952	-	78,952
Total debts(a)	150,054	78,496	39,236	267,786	9,955	277,741
² Of which:						
Debts under restructuring	1,811	-	70	1,881	-	1,881
Other impaired debts	1,465	-	94	1,559	-	1,559
Total impaired debts	3,276	-	164	3,440	-	3,440
Debts in arrears of 90 days or more	84	700	73	857	-	857
Other problem debts	2,534	-	388	2,922	-	2,922
Total impaired debts	5,894	700	625	7,219	-	7,219
Allowance for credit losses for debts^a:						
Examined on an individual basis	1,683	5	76	1,764	1	1,765
Examined on a collective basis ²	427	452	659	1,538	-	1,538
² Of which the allowance was calculated by extent of arrears	-	448 (b)	-	448	-	448
Total allowance for credit losses ³	2,110	457	735	3,302	1	3,303
³ Of which in respect of impaired debts	564	-	27	591	-	591

- (a) Loans to the public, loans 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 289 million.
- (c) Including the balance of housing loans granted to purchasing groups in construction phase.

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

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

	30 June 2016 (Unaudited)					
	Loans 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	110,037 (d)	68 (d)	819 (d)	110,924	9,413	120,337
Examined on a collective basis ¹	39,494	81,903	37,281	158,678	4,229	162,907
¹ Of which: the allowance was calculated by extent of arrears	982 (c)	80,843	-	81,825	-	81,825
Total debts^(a)	149,531	81,971	38,100	269,602	13,642	283,244
² Of which:						
Debts under restructuring	1,456	-	98	1,554	-	1,554
Other impaired debts	1,738	-	218	1,956	-	1,956
Total impaired debts	3,194	-	316	3,510	-	3,510
Debts in arrears of 90 days or more	85	725	115	925	-	925
Other problem debts	3,054	24	349	3,427	-	3,427
Total impaired debts	6,333	749	780	7,862	-	7,862
Allowance for credit losses for debts^a:						
Examined on an individual basis	1,914	10	76	2,000	2	2,002
Examined on a collective basis ²	381	503	670	1,554	-	1,554
² Of which the allowance was calculated by extent of arrears (b)	-	500 (b)	-	500	-	500
Total allowance for credit losses³	2,295	513	746	3,554	2	3,556
³ Of which in respect of impaired debts	675	-	33	708	-	708

- (a) Loans to the public, loans 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 308 million.
- (c) Reclassified.

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

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

	31 December 2016 (Audited)					
	Loans to the public				Banks and governments	
	Commercial	Residential	Other private	Total		Total
	(NIS millions)					
Recorded debt balance of debts^a						
Examined on an individual basis	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	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 (b)	-	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) Loans to the public, loans 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, Loans to the public and Allowance for Credit Losses (cont.)

B. Change in balance of allowance for credit losses

For the three months ended 30 June 2017 (Unaudited)						
Allowance for credit losses						
Loans 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	2,740	470	769	3,979	1	3,980
Expenses (income) for credit losses	(12)	(11)	65	42	-	42
Accounting write-offs	(249)	(2)	(145)	(396)	-	(396)
Collection of debts written off in previous years	122	-	85	207	-	207
Net accounting write-offs	(127)	(2)	(60)	(189)	-	(189)
Adjustments from translation of financial statements	(7)	-	-	(7)	-	(7)
Balance of allowance for credit losses at end of the reporting period ¹	2,594	457	774	3,825	1	3,826
¹ Of which: in respect of off-balance sheet credit instruments	484	-	39	523	-	523

For the three months ended 30 June 2016 (Unaudited)						
Allowance for credit losses						
Loans 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	2,745	510	755	4,010	2	4,012
Expenses (income) for credit losses	(244)	8	82	(154)	-	(154)
Accounting write-offs	(29)	(3)	(164)	(196)	-	(196)
Collection of debts written off in previous years	243	-	107	350	-	350
Net accounting write-offs	214	(3)	(57)	154	-	154
Adjustments from translation of financial statements	2	(2)	(1)	(1)	-	(1)
Balance of allowance for credit losses at end of the reporting period ¹	2,717	513	779	4,009	2	4,011
¹ Of which: in respect of off-balance sheet credit instruments	422	-	33	455	-	455

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

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

	For the six months ended 30 June 2017 (Unaudited)					
	Allowance for credit losses					
	Loans 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) for credit losses	84	(13)	72	143	-	143
Accounting write-offs	(428)	(4)	(317)	(749)	-	(749)
Collection of debts written off in previous years	228	-	194	422	-	422
Net accounting write-offs	(200)	(4)	(123)	(327)	-	(327)
Adjustments from translation of financial statements	(17)	1	-	(16)	-	(16)
Balance of allowance for credit losses at end of the reporting period ¹	2,594	457	774	3,825	1	3,826
¹ Of which: in respect of off-balance sheet credit instruments	484	-	39	523	-	523

	For the six months ended 30 June 2016 (Unaudited)					
	Allowance for credit losses					
	Loans 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 (a)	513	659 (a)	4,153	3	4,156
Expenses in respect of credit losses	(512) (a)	6	230 (a)	(276)	(1)	(277)
Accounting write-offs	(221)	(5)	(306)	(532)	-	(532)
Collection of debts written off in previous years	472	-	197	669	-	669
Net accounting write-offs	251	(5)	(109)	137	-	137
Adjustments from translation of financial statements	(3)	(1)	(1)	(5)	-	(5)
Balance of allowance for credit losses at end of the reporting period ¹	2,717	513	779	4,009	2	4,011
¹ Of which: in respect of off-balance sheet credit instruments	422	-	33	455	-	455

(a) Reclassified.

Note 7 – Deposits from the Public

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

	30 June		31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
In Israel			
On demand			
Non-interest-bearing	75,706	71,407	79,516
Interest bearing	108,456	91,089	97,328
Total on demand	184,162	162,496	176,844
Fixed term	134,269	150,717	143,289
Total deposits in Israel ¹	318,431	313,213	320,133
Outside Israel			
On demand			
Non-interest-bearing	9,319	9,821	10,306
Interest bearing	5,233	3,404	4,339
Total on demand	14,552	13,225	14,645
Fixed term	9,783	13,560	12,076
Of which:non-interest-bearing deposits	23	51	32
Total deposits outside Israel	24,335	26,785	26,721
Total deposits of the public	342,766	339,998	346,854
¹ Of which:			
Deposits of private persons	140,465	142,109	143,644
Deposits of institutional entities	59,142	58,770	55,862
Deposits of corporations and others	118,824	112,334	120,627

B. Deposits from the public by size

	30 June		31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Up to 1	98,077	97,974	96,368
From 1 to 10	92,154	89,400	93,912
From 10 to 100	58,628	60,617	60,809
From 100 to 500	32,492	31,879	37,271
Above 500	61,415	60,128	58,494
Total	342,766	339,998	346,854

Note 8 – Employee Benefits

Efficiency

On 12 January 2016, the Banking Supervision Department published a letter on "Operational Streamlining of the Banking System in Israel" (hereinafter: "**the Streamlining Directive**"). According to this circular, the Board of Directors of a banking corporation will set out a multi-year efficiency plan. A banking corporation which meets the conditions defined in the letter will receive a relief according to which it will be able to spread the costs of the plan, for the purpose of calculating the capital adequacy ratio, over five years on a straight-line basis.

As part of the steps for efficiency and saving expenses, the Bank carried out a voluntary retirement plan (for details see Note 23.M to the Bank's financial statements for 2016). This plan, together with other steps, led to a decrease of 1,050 persons in the employee work force in 2016.

The Bank continues streamlining activities through various means and assimilate organizational and operational steps. These facilitate the carrying out of a further significant step for reducing manpower, while continuing to provide good service and the appropriate management of risks.

Accordingly, on 11 July 2017, the Board of Directors approved a new voluntary retirement plan.

The main points of the voluntary retirement plan which was approved by the Board of Directors (hereinafter: "the Plan") are as follows:

1. Pursuant to the Plan, 500-600 employees will be allowed to take early retirement from the Bank.
2. The benefits offered, depending on the age and tenure of the employees will be mainly: (a) an early pension arrangement up to legal retirement age, for those who are eligible for non-contributory pension from the Bank who meet the parameters defined in the Plan or (b) enhanced compensation at a rate of 245% up to 265%, subject to the parameters defined in the Plan.
3. The early retirement will take place, as far as possible, by the end of 2017.
4. The total cost of the plan is estimated by the Bank to be NIS 500-600 million (hereinafter: "the Cost of the Efficiency Plan").

The main points of the accounting treatment are as follows:

1. The cost of the efficiency plan constitutes an actuarial loss and charged to other comprehensive income in the second quarter of 2017 (NIS 600 million before tax).
2. In subsequent periods, the cost of the plan will be amortized to profit and loss as part of the balance of "actuarial gains and losses" on a straight-line basis over the average remaining period of employment of active employees in the plan.

The impact of the efficiency plan on the capital adequacy is estimated at 0.2%, which will be deducted gradually from the capital adequacy over five years.

Note 8 – Employee Benefits (cont.)

A. Composition of benefits

1. Employee benefits

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	16,662	17,465	16,948
Fair value of plan assets	6,520	6,685	6,819
Excess liabilities over plan assets (included under other liabilities)	10,142	10,780	10,129
Long-service (Jubilee) bonus			
Amount of liability (a)	57	123	82
Fair value of plan assets	-	-	-
Excess liabilities over plan assets (included under other liabilities)	57	123	82
Other benefits			
Amount of liability	552	608	559
Fair value of plan assets	-	-	-
Excess liabilities over plan assets (included under other liabilities)	552	608	559
Total¹			
Excess liabilities in respect of employee benefits over plan assets included under "Other liabilities"	10,751	11,511	10,770
¹ Of which: in respect of employee benefits overseas	104	107	117

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

Note 8 – Employee Benefits (cont.)

A. Composition of benefits (cont.)

1. Defined benefit pension plan

A. Commitment and state of funding

1. Change in commitment in respect of forecast benefit

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Commitment in respect of forecast benefit at the beginning of the period	15,996	16,544	16,948	15,764	15,764
Service cost	35	44	72	86	163
Interest cost	178	174	355	346	687
Deposits of plan participants	12	11	23	23	48
Actuarial loss (profit)	742	814	326	1,586	1,174
Changes in foreign currency exchange rates	(6)	(6)	(25)	(23)	(38)
Benefits paid (a)	(295)	(127)	(1,037)	(332)	(865)
Other	-	11	-	15	15
Commitment in respect of forecast benefit at the end of the period	16,662	17,465	16,662	17,465	16,948
Commitment in respect of accumulated benefit at the end of the period	15,926	16,249	15,926	16,249	16,011

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

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Fair value of plan assets at the beginning of the period	6,419	6,693	6,819	6,766	6,766
Actual return on plan assets:	119	5	203	(43)	257
Deposits in the plan by the Bank	28	32	56	64	158
Deposits by plan participants	12	11	23	23	48
Changes in foreign currency exchange rates	(6)	(5)	(22)	(22)	(37)
Benefits paid (a)	(52)	(63)	(559)	(115)	(449)
Other	-	12	-	12	76
Fair value of plan assets at the end of the period	6,520	6,685	6,520	6,685	6,819
State of funding - net liability recognized at the end of the period (included in other liabilities)	10,142	10,780	10,142	10,780	10,129

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

Note 8 – Employee Benefits (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

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Amounts recognized under other liabilities	10,142	10,780	10,129
Liability net recognized at the end of the period	10,142	10,780	10,129

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

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Net actuarial loss	3,398	4,002	3,241
Closing balance in accumulated other income	3,398	4,002	3,241

B. Expense for the period

1. Benefit cost components net recognized in profit and loss

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Service cost	35	44	72	86	163
Interest cost	178	174	355	346	687
Forecast return on plan assets	(87)	(91)	(179)	(182)	(373)
Amortization of amounts not recognized - net actuarial loss	63	76	145	129	310
Total cost of benefit, net	189	203	393	379	787
Total expense in respect of defined deposit pension plan	40	38	77	79	158
Total expenses included in salaries and related expenses	229	241	470	458	945

Note 8 – Employee Benefits (cont'd)

A. Composition of benefits (cont.)

2. Defined benefit pension plan (cont'd)

B. Expense for the period

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

	For the three months ended 30 June		For the six months ended 30 June		For the year ended 31 December
	2017	2016	2017	2016	2016
	Unaudited				Audited
	NIS millions				
Net actuarial loss (profit) for the period	710	900	302	1,811	1,290
Amortization of amounts not recognized - net actuarial profit	(63)	(76)	(145)	(129)	(310)
Changes in foreign currency exchange rates	-	(1)	-	(9)	(4)
Other including structural change	-	-	-	-	(64)
Total recognized in other comprehensive income	647	823	157	1,673	912
Net cost of benefit	189	203	393	379	787
Total recognized in cost of benefit, net, for the period and in other comprehensive income	836	1,026	550	2,052	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 six months ending 31 December 2017
	Unaudited
	NIS millions
Net actuarial loss	162
Total expected to be amortized from accumulated other comprehensive income	162

Note 8 – Employee Benefits (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
1. Basic assumptions used for determining the commitment in respect of the benefit

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	2.62	2.23	2.49
CPI discount rate	1.71	2.00	1.90
Employee turnover rate	0.1-3.7	0.1-3.7	0.1-3.7
Rate of growth of remuneration	0-6.3	0-6.3	0-6.3

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

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	2.65	2.37	2.48
Forecast return on long-term plan assets	5.50	5.50	5.50
Rate of growth of remuneration	0-6.3	0-6.3	0-6.3

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

	Increase of one percentage point			Decrease of one percentage point		
	At 30 June		At 31 December	At 30 June		At 31 December
	2017	2016	2016	2017	2016	2016
	Unaudited			Audited		
	NIS millions					
Discount rate	(2,059)	(2,303)	(2,191)	2,578	2,893	2,745
CPI discount rate	(59)	(153)	(130)	59	155	131
Employee turnover rate	213	250	222	(231)	(270)	(241)
Rate of growth in remuneration	555	697	663	(478)	(616)	(581)

(a) The assumptions relate to Bank figures only.

Note 8 – Employee Benefits (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

	At 30 June		At 31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Cash and deposits in banks	155	160	279
Shares	2,611	2,593	2,401
Government bonds	1,271	1,331	1,630
Corporate bonds	2,083	2,241	1,940
Other	400	360	569
Total	6,520	6,685	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		
	2017	At 30 June		At 31 December
		2017	2016	2016
		Unaudited		Audited
	Percentage			
Cash and deposits in banks	2	2	2	4
Shares	38	41	39	36
Government bonds	19	19	20	24
Corporate bonds	31	32	34	28
Other	10	6	5	8
Total	100	100	100	100

Note 8 – Employee Benefits (cont'd)

A. Composition of benefits (cont.)

4. Plan assets (cont.)

C. Cash flows

1. Deposits

		Actual deposits		Actual deposits	
		For the three months ended 30 June		For the six months ended 30 June	For the year ended 31 December
	Forecast (a)				
	2017	2017	2016	2017	2016
	Unaudited				Audited
	NIS millions				
Deposits	157	40	43	79	87
					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	301
2018	1,001
2019	694
2020	723
2021	742
2022-2026	4,241
2027 and thereafter	10,832
Total	18,534

(a) In discounted values.

Note 9A – Capital

Changes in the Bank's capital

Pursuant to the Bank's Remuneration Policy, the terms 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 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 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 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 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.

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 aforesaid policy, on 14 August 2017, the Board of Directors approved the distribution of a dividend in the sum of about NIS 175 million, representing 11.50383 agorot for each share of NIS 1 nominal value. The Board of Directors fixed the date of 28 August 2017 as the determining date regarding payment of the dividend and 11 September 2017 as the date of payment. This dividend is classified as a dividend from an "Ireland-track" approved enterprise, out of the profits for the year 2015.

Details of the dividend paid

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash	Source of payment
		In agorot	NIS millions	
25 May 2017	22 June 2017	8.168	124	Dividend from an approved enterprise out of the profits for the year 2015

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.

On 29 June 2017, the Supervisor of Banks approved the Stock Exchange Clearing House and the Maof Clearing House as eligible central counterparties for purposes of calculating the capital requirement in respect of exposures to central counterparties, as stated in Appendix C to Directive 203.

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.
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. The Bank updated the manner of calculating the capital ratios and the leverage ratio in accordance with the update of the said directive. The impact of implementation of the directive on Leumi is an increase in total risk-weighted assets at 30 June 2017 of NIS 0.8 billion, a decrease of 0.03% in the Common Equity Tier 1 capital adequacy ratio.

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 Common Equity Tier 1, 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 16,286 million and Common Equity Tier 1 to NIS 33,527 million, compared with the pension liability in the books of NIS 17,214 million and Common Equity Tier 1 of NIS 32,549 million.

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

	30 June		31 December
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
A. Data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after regulatory adjustments and deductions ^(b)	33,527	31,187	32,586
Tier 2 capital, after deductions	11,305	12,838	11,850
Total capital	44,832	44,025	44,436
Weighted balances of risk-weighted assets			
Credit risk (b)	271,671	273,129	266,534
Market risk	6,308	6,369	4,788
Operational risk	21,129	20,433	20,843
Total weighted balances of risk-weighted assets	299,108	299,931	292,165
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	11.21%	10.40%	11.15%
Ratio of total capital to risk components	14.99%	14.68%	15.21%
Minimum Tier 1 capital ratio required by the Supervisor of Banks ^(a)	10.26%	9.17%	9.24%
Minimum total capital ratio required by the Supervisor of Banks ^(a)	13.76%	12.67%	12.74%
B. Principal subsidiary companies			
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	16.00%	16.82%	16.81%
Ratio of total capital to risk components	17.00%	17.76%	17.79%
Minimum Tier 1 capital ratio required by the Supervisor of Banks	8.00%	8.00%	8.00%
Minimum total capital ratio required by the Supervisor of Banks	11.50%	11.50%	11.50%
Bank Leumi USA			
Ratio of Tier 1 capital to risk components	11.72%	12.79%	12.21%
Ratio of total capital to risk components	14.18%	15.47%	14.75%
Minimum Common Equity Tier 1 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 Common Equity Tier 1 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 Common Equity Tier 1 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). Pursuant to the above letter, adjustments for the efficiency plans approved by the Board of Directors in June 2016 and July 2017 will gradually decrease until 30 June 2021. For further information regarding the impact of the transitional provisions and the adjustments for the efficiency plan, see section D in Note 9.B below – Capital Adequacy, Leverage and Liquidity in the financial statement and chapter "Relief in respect of Operational Streamlining Plans" in the Report on Risks. From the total weighted balances of risk-weighted assets, NIS 34 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)

	30 June 2017 Unaudited NIS millions	2016	31 December 2016 Audited
1. Common Equity Tier 1			
Capital due to shareholders of the Bank	32,521	30,064	31,347
Differences between capital due to shareholders of the Bank and Common Equity Tier 1 - minority interests	217	232	245
Differences between capital due to shareholders of the Bank and Common Equity Tier 1 - in respect of employee benefits	451	1,046	868
Adjustments in respect of the transition from the accounting curve to the 8-quarter curve (a)	50	266	137
Common Equity Tier 1 before regulatory adjustments and deductions	33,239	31,608	32,597
Regulatory adjustments and deductions:	-		
Goodwill and intangible assets	(254)	(273)	(265)
Deferred tax assets	(344)	(505)	(120)
Regulatory adjustments and other deductions - Common Equity Tier 1	(23)	(36)	(19)
Total regulatory adjustments and deductions - Common Equity Tier 1	(621)	(814)	(404)
Total adjustments for the efficiency plan	909	393	393
Total Common Equity Tier 1, after regulatory adjustments and deductions	33,527	31,187	32,586
2. Tier 2 capital	-		
Tier 2 capital: instruments before deductions	8,228	9,672	8,662
Tier 2 capital: provisions before deductions	3,077	3,166	3,188
Total Tier 2 capital before deductions	11,305	12,838	11,850
Deductions:			
Total deductions - Tier 2 capital	-	-	-
Total Tier 2 capital	11,305	12,838	11,850
Total overall capital	44,832	44,025	44,436

(a) Pursuant to a specific approval of the Supervisor of Banks.

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.

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

D. Effect of the transitional provisions and adjustments in respect of the streamlining plan on Common Equity Tier 1 ratio

	30 June		31 December
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Ratio of capital to risk components			
Ratio of Common Equity Tier 1 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%	9.81%	10.66%
Effect of the transitional provisions	0.20%	0.46%	0.35%
Ratio of Common Equity Tier 1 to risk components before the effect of adjustments in respect of the efficiency plan	10.90%	10.27%	11.01%
Adjustments in respect of the efficiency plan	0.31%	0.13%	0.14%
Ratio of Common Equity Tier 1 to risk components	11.21%	10.40%	11.15%

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

On 12 January 2016, the Banking Supervision Department published a letter on "Operational Streamlining of the Banking System in Israel". According to this circular, the Board of Directors of a banking corporation will set out a multi-year efficiency plan. A banking corporation which meets the conditions defined in the letter will receive a relief according to which it will be able to spread the impact of the plan, for the purpose of calculating the capital adequacy ratio, over five years on a straight-line basis. For further details, see Note 8.

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 defined 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%.

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

E. Leverage ratio pursuant to the directive of the Supervisor of Banks (cont'd)

A banking corporation is required to comply with the minimum leverage ratio from 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined. According to the Directive, a banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018.

	30 June	31 December	
	2017	2016	2016
	Unaudited	Audited	
	NIS millions		
A. In consolidated terms (a)			
Tier 1 capital	33,527	31,187	32,586
Total exposures	483,683	479,140	481,384
Leverage ratio			
Leverage ratio	6.93%	6.51%	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	11.19%	11.62%	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	9.64%	9.95%	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" (hereinafter: adjustments for the streamlining plan). Pursuant to the above letter, adjustments for the efficiency plans approved by the Board of Directors in June 2016 and July 2017 will gradually decrease until 30 June 2021 and 30 June 2022, respectively. The effect of the relief for the efficiency plan on the leverage ratio totaled 0.18% at 30 June 2017 (0.08% and 0.08% at 31 December 2016 and 30 June 2016, respectively). For further details regarding the impact of the transitional provisions and the adjustments for the efficiency plan, see section D above.
- 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 there was added Proper Conduct of Banking Business Directive No. 221 on the liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking system in Israel. The liquidity coverage ratio examines a horizon of 30 days in an extreme scenario and is designed to ensure that the banking corporation's inventory of high-quality liquid assets that responds to the liquidity needs of the corporation for this time horizon. As part of the directive, the method is determined for calculating the liquidity coverage ratio, including setting the characteristics and operational requirements for the "inventory of high-quality liquid assets" (the numerator) and safety coefficients in respect of them and the net cash outflow expected in the stress scenario defined in the directive for 30 calendar days (the denominator).

The stress scenario determined in the directive combines a shock specific to the corporation with systemic shock in which standard withdrawal rates for cash outflows and deposit rates for cash inflows have been set out in accordance with the different categories of balances.

The liquidity coverage ratio was introduced as of 1 April 2015.

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

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

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 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 factors that had a significant effect on the liquidity cover ratio, include inter alia a change in the volume of liquid assets deriving from the issuances of debt instruments and an increase in the volume of deposits.

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.

	30 June	31 December	
	2017	2016	2016
	Unaudited	Audited	
	Percentage	Percentage	
A. In consolidated terms			
Liquidity cover ratio	127%	127%	132%
Minimum liquidity cover ratio required by the Supervisor of Banks	100%	80%	80%
B. In terms of the Bank			
Liquidity cover ratio	127%	125%	130%
Minimum liquidity cover ratio required by the Supervisor of Banks	100%	80%	80%

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

Note 10 - Contingent Liabilities and Special Commitments

A. Contingent liabilities and special commitments

	30 June	31 December
	2017	2016
	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	182	276
Second year	246	197
Third year	160	180
Fourth year	131	151
Fifth year	113	119
After five years	1,165	1,179
Total long-term rental contracts	1,997	2,102
(2) Commitments to purchase securities	651	720
(3) Commitments to invest in buildings, equipment and others	88	99

	30 June	31 December
	2017	2016
	Unaudited	Audited
	NIS millions	
(4) Credit sale activity		
Book value of credit sold	-	234
Proceeds received in cash	-	248
Deferred profit	-	(16)
Total net profit from sale of credit (a)	-	14

(a) No loans were sold in the three-month period that ended on 30 June 2017 and 30 June 2016.

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 to the annual financial statement 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 42 million.

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 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 thus allegedly 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.
 - 1.4 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.
 - 1.5 On 22 January, 2017, a petition was submitted 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 one million shekels, without details.
 - 1.6 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.

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

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 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.

2.2 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 part of the implementation of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, the Bank of Israel is currently working to formulate its professional position regarding the level of cross commission in debit card transactions for the years 2019 and thereafter. 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 until 31 December, 2018.

On July 24, 2017, the Ministry of Finance announced a reduction in merchant commission in the Diners and American Express brands. The reduction in commissions will be carried out gradually, so that by the end of December 2017 the maximum commission will be 2.95%; by the end of December 2018, the maximum commission will be 2.45%; by the end of December 2019, the maximum commission will be 2.10%; and by the end of June 2020 the maximum commission for a merchant will be 1.99%. It was also decided that the credit card companies will be prohibited from imposing alternative fees on merchants.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates**A. Scope of activity on consolidated basis**

	30 June 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	-	2,266	-	-	-	2,266
Total	-	2,266	-	-	-	2,266
Of which: interest rate swap contracts in which the Bank agreed to pay a fixed rate of interest	-	2,266	-	-	-	2,266
b) ALM derivatives (a)(b)						
Futures contracts	-	24,495	127	69,083	195	93,900
Forward contracts	14,745	1,052	165,886	588	5	182,276
Exchange-traded options						
Options written	-	1,100	15,469	15,152	82	31,803
Options purchased	-	1,100	15,086	15,152	82	31,420
Other options						
Options written	-	10,810	19,517	3,168	147	33,642
Options purchased	-	5,469	20,854	2,943	144	29,410
Swaps	572	268,720	26,558	32,240	175	328,265
Total	15,317	312,746	263,497	138,326	830	730,716
Of which: interest rate swap contracts in which the Bank agreed to pay a fixed rate of interest	-	141,915	-	-	-	141,915
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the Bank is a beneficiary	-	-	-	-	10	10
Spot foreign exchange contracts	-	-	15,221	-	-	15,221
Total	-	-	15,221	-	10	15,231
Grand total	15,317	315,012	278,718	138,326	840	748,213

(a) Excluding credit derivatives and foreign exchange spot contracts.

(b) Derivatives constituting part of the Bank's assets and liabilities management not designated for hedging.

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

A. Scope of activity (cont'd)

	30 June 2017 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Inflation linked NIS	Other				
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross positive fair value	-	39	-	-	-	39
Gross negative fair value	-	16	-	-	-	16
b) ALM derivatives (a)(b)						
Gross positive fair value	339	5,225	4,442	1,301	20	11,327
Gross negative fair value	425	4,885	5,493	1,296	19	12,118
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the Bank is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	- (d)	-
e) Total						
Gross positive fair value (c)	339	5,264	4,442	1,301	20	11,366
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative assets	339	5,264	4,442	1,301	20	11,366
Of which: book value of derivative assets not subject to a master netting arrangement or similar arrangements						
	47	59	194	2	-	302
Gross negative fair value (c)	425	4,901	5,493	1,296	19	12,134
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative liabilities	425	4,901	5,493	1,296	19	12,134
Of which: book value of derivative liabilities not subject to a master netting arrangement or similar arrangements						
	-	47	352	2	15	416

(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 56 million.

(d) Amount less than NIS 1 million.

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

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

	30 June 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Inflation linked NIS	Other				
	NIS millions					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Swaps	-	2,421	-	-	-	2,421
Total	-	2,421	-	-	-	2,421
Of which: interest rate swap contracts in which the Bank agreed to pay a fixed rate of interest						
	-	2,421	-	-	-	2,421
b) ALM derivatives (a)(b)						
Futures contracts	-	34,862	59	50,170	192	85,283
Forward contracts	13,151	6,800	211,366	300	47	231,664
Exchange-traded options						
Options written	-	263	15,206	19,652	87	35,208
Options purchased	-	263	15,875	19,652	87	35,877
Other options						
Options written	-	11,046	16,841	2,748	292	30,927
Options purchased	-	7,478	15,549	2,958	292	26,277
Swaps	584	270,145	27,912	30,528	267	329,436
Total	13,735	330,857	302,808	126,008	1,264	774,672
Of which: interest rate swap contracts in which the Bank agreed to pay a fixed rate of interest						
	-	147,563	-	-	-	147,563
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the Bank is a beneficiary						
	-	-	-	-	30	30
Spot foreign exchange contracts	-	-	17,791	-	-	17,791
Total	-	-	17,791	-	30	17,821
Grand total	13,735	333,278	320,599	126,008	1,294	794,914

(a) Excluding credit derivatives and foreign exchange spot contracts.

(b) Derivatives constituting part of the Bank's assets and liabilities management not designated for hedging.

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

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

	30 June 2016 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Inflation linked NIS	Other				
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	203	-	-	-	203
b) ALM derivatives (a)(b)						
Gross positive fair value	390	7,757	3,330	1,481	43	13,001
Gross negative fair value	447	7,540	4,061	1,483	42	13,573
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the Bank is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	390	7,757	3,330	1,481	43	13,001
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative assets	390	7,757	3,330	1,481	43	13,001
Of which: book value of derivative assets not subject to a master netting arrangement or similar arrangements						
	47	22	169	-	3(d)	241
Gross negative fair value (c)	447	7,743	4,061	1,483	43	13,777
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative liabilities	447	7,743	4,061	1,483	43	13,777
Of which: book value of derivative liabilities not subject to a master netting arrangement or similar arrangements						
	-	9	303	-	1	313

(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 2 million; negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 34 million.

(d) Restated.

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 Bank agreed to pay a fixed 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 Bank 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 Bank 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.

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 Bank is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	- (d)	-
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 derivative assets	339	5,650	3,075	1,571	24	10,659
Of which: book value of derivative assets 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 derivative liabilities	400	5,287	3,477	1,544	20	10,728
Of which: book value of derivative liabilities 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).

(d) Amount less than NIS 1 million.

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

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

30 June 2017 (Unaudited)						
	Stock Exchanges NIS millions	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Book balance of derivative assets (a) (b)	185	6,693	1,959	102	2,427	11,366
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	4,738	1,770	-	796	7,304
Mitigation of credit risk in respect of cash collateral received	-	1,669	189	102	66	2,026
Net amount of derivative assets	185	286	-	-	1,565	2,036
Off-balance sheet credit risk in respect of derivative instruments (d)	-	5,941	1,567	68	4,713	12,289
Mitigation of off-balance sheet credit risk	-	1,569	841	-	1,295	3,705
Net off-balance sheet credit risk in respect of derivative instruments (e)	-	4,372	726	68	3,418	8,584
Total credit risk in respect of derivative instruments	185	4,658	726	68	4,983	10,620
Book balance of derivative liabilities (a) (c)	152	5,726	1,982	-	4,274	12,134
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	4,738	1,770	-	796	7,304
Cash collateral pledged	-	441	86	-	1,924	2,451
Net amount of derivative liabilities	152	547	126	-	1,554	2,379

See notes on page 158.

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

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

	30 June 2016 (Unaudited)					
	Stock Exchanges NIS millions	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Book balance of derivative assets (a) (b)	166	7,575	2,413	6	2,841	13,001
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	6,571	2,100	6	910	9,587
Mitigation of credit risk in respect of cash collateral received	-	417	144	-	246	807
Net amount of derivative assets	166	587	169	-	1,685	2,607
Off-balance sheet credit risk in respect of derivative instruments (d)	-	4,041	1,277	76	4,882	10,276
Mitigation of off-balance sheet credit risk	-	2,364	655	46	1,548	4,613
Net off-balance sheet credit risk in respect of derivative instruments (e)	-	1,677	622	30	3,334	5,663
Total credit risk in respect of derivative instruments	166	2,264	791	30	5,019	8,270
Book balance of derivative liabilities (a) (c)	155	7,905	2,352	92	3,273	13,777
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	6,571	2,100	6	910	9,587
Cash collateral pledged	-	927	137	86	310	1,460
Net amount of derivative liabilities	155	407	115	-	2,053	2,730

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 NIS millions	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Book balance of derivative assets (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 derivative assets	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
Net off-balance sheet 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 derivative liabilities (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 derivative liabilities	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 11,361 million (at 30 June 2016 - NIS 12,999 million, at 31 December 2016 – NIS 10,654 million).
- (c) Of which a book balance of standalone derivative instruments in the amount of NIS 12,078 million (at 30 June 2016 – NIS 13,743 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 30 June 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

	30 June 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	1,796	3,899	7,258	2,364	15,317
Other	41,086	55,569	126,728	91,629	315,012
Foreign currency contracts	161,632	85,852	25,787	5,447	278,718
Contracts in respect of shares	104,845	31,380	2,101	-	138,326
Commodities and other contracts	405	286	149	-	840
Total	309,764	176,986	162,023	99,440	748,213
Total 31 March 2016 (Unaudited)	341,509	196,282	167,229	89,894	794,914
Total 31 December 2016 (Audited)	301,486	188,661	153,882	92,411	736,440

Note 12A – Regulatory operating segments

General

Information on regulatory operating segments appeared in Note 29A of the financial statements as at 31 December 2016.

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 improvement was carried out on customer data as of the year 2016 and thereafter. 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 30 June 2017												
	Unaudited												
	Activity in Israel												
	Households												
		Of which:	Of which:		Small and	Mid-sized	Large	Institutional	Financial	Other	Total activity	Total activity	
	Total	Housing	Credit	Private	micro	businesses	businesses	entities	management	segment	in Israel	abroad	Total
	NIS millions												
Interest income from outside entities	1,171	711	67	3	532	192	475	8	229	-	2,610	277	2,887
Interest expense to outside entities	145	-	-	52	19	25	55	150	243	-	689	33	722
Interest income (expenses), net:													
From outside entities	1,026	711	67	(49)	513	167	420	(142)	(14)	-	1,921	244	2,165
Intersegmental	(322)	(504)	(2)	76	(59)	(5)	(130)	160	286	-	6	(6)	-
Total interest income, net	704	207	65	27	454	162	290	18	272	-	1,927	238	2,165
Total non-interest income (expenses)	452	14	232	42	172	78	157	44	181	21	1,147	73	1,220
Total income (expenses)	1,156	221	297	69	626	240	447	62	453	21	3,074	311	3,385
Expenses (income) for credit losses	51	(8)	15	1	66	(23)	(73)	2	3	-	27	15	42
Operating and other expenses:													
To outside entities	909	68	195	33	342	124	132	68	37	173	1,818	202	2,020
Intersegmental	9	-	9	-	-	-	-	1	(11)	-	(1)	1	-
Total operating and other expenses	918	68	204	33	342	124	132	69	26	173	1,817	203	2,020
Profit (loss) before taxes	187	161	78	35	218	139	388	(9)	424	(152)	1,230	93	1,323
Provision for (benefit from) taxes on the profit	60	56	22	13	77	49	135	(4)	141	(43)	428	28	456
Profit (loss) after taxes	127	105	56	22	141	90	253	(5)	283	(109)	802	65	867
Share of the Bank in profits of associate companies	-	-	-	-	-	-	-	-	15	-	15	-	15
Net income (loss) before attribution to non-controlling interests	127	105	56	22	141	90	253	(5)	298	(109)	817	65	882
Net income (loss) due to non-controlling interests	9	-	9	-	-	-	-	-	-	(3)	6	-	6
Net income (loss) due to shareholders of the Bank	118	105	47	22	141	90	253	(5)	298	(106)	811	65	876
Average balance of assets (a)	108,975	71,236	12,001	353	52,603	24,267	53,630	1,307	150,015	8,760	399,910	34,822	434,732
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-	-	-	-	140	-	140	-	140
Average balance of loans to the public (a)	108,860	71,270	11,966	349	52,806	23,824	55,137	2,212	-	-	243,188	23,335	266,523
Balance of loans to the public at the end of the reporting perio	110,080	71,648	12,006	457	53,740	24,911	53,930	2,090	-	-	245,208	22,578	267,786
Balance of impaired debts	121	-	22	-	454	298	1,955	2	-	-	2,830	610	3,440
Balance of debts in arrears of more than 90 days	774	700	-	-	66	-	9	-	-	-	849	8	857
Average balance of liabilities (a)	115,954	-	105	29,172	41,990	33,298	50,705	54,874	36,495	13,136	375,624	26,686	402,310
Of which: Average balance of deposits from the public (a)	115,602	-	93	29,090	38,849	31,865	46,454	53,525	-	-	315,385	25,400	340,785
Balance of deposits of the public at the end of the reporting period	114,662	-	70	27,878	41,050	32,509	43,190	59,142	-	-	318,431	24,335	342,766
Average balance of risk-weighted assets (a) (b)	86,125	54,957	10,272	808	53,039	34,484	54,962	1,807	19,813	17,201	268,239	30,871	299,110
Balance of risk-weighted assets at the end of the reporting period (b)	86,316	55,078	10,295	781	56,787	34,443	52,331	1,713	20,630	16,102	269,103	30,005	299,108
Average balance of assets under management (a) (c)	80,168	-	-	49,419	29,032	19,059	73,352	569,987	33,665	-	854,682	18,991	873,673
Distribution of interest income (expenses), net:													
Margin on credit granting activity	625	207	64	1	429	140	273	4	933	-	2,405	235	2,640
Margin on deposit taking activity	79	-	1	26	25	22	16	13	(576)	-	(395)	(34)	(429)
Other	-	-	-	-	-	-	1	1	(85)	-	(83)	37	(46)
Total interest income, net	704	207	65	27	454	162	290	18	272	-	1,927	238	2,165

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 30 June 2016 (d)												
	Activity in Israel							Activity abroad					
	Households			Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Total	Of which: Housing loans	Of which: Credit cards										
	Unaudited												
	NIS millions												
Interest income from outside entities	1,044	605	61	3	473	174	495	5	241	-	2,435	269	2,704
Interest expense to outside entities	148	-	1	44	7	22	51	141	224	-	637	33	670
Interest income (expenses), net:													
From outside entities	896	605	60	(41)	466	152	444	(136)	17	-	1,798	236	2,034
Intersegmental	(262)	(434)	(1)	64	(77)	(14)	(111)	151	256	-	7	(7)	-
Total interest income, net	634	171	59	23	389	138	333	15	273	-	1,805	229	2,034
Total non-interest income (expenses)	428	8	218	41	172	80	167	41	540	11	1,480	58	1,538
Total income (expenses)	1,062	179	277	64	561	218	500	56	813	11	3,285	287	3,572
Expenses (income) for credit losses	110	8	68	-	36	(39)	(215)	(18)	(29)	-	(155)	1	(154)
Operating and other expenses:													
To outside entities	1,028	60	191	32	345	120	154	71	42	343	2,135	220	2,355
Intersegmental	5	-	5	-	-	-	-	1	(6)	-	-	-	-
Total operating and other expenses	1,033	60	196	32	345	120	154	72	36	343	2,135	220	2,355
Profit (loss) before taxes	(81)	111	13	32	180	137	561	2	806	(332)	1,305	66	1,371
Provision for (benefit from) taxes on the profit	(37)	39	(1)	12	62	48	200	1	309	(209)	386	21	407
Profit (loss) after taxes	(44)	72	14	20	118	89	361	1	497	(123)	919	45	964
Share of the Bank in profits of associate companies	-	-	-	-	-	-	-	-	16	-	16	-	16
Net income (loss) before attribution to non-controlling interests	(44)	72	14	20	118	89	361	1	513	(123)	935	45	980
Net income (loss) due to non-controlling interests	9	-	9	-	1	1	-	-	-	(1)	10	-	10
Net income (loss) due to shareholders of the Bank	(53)	72	5	20	117	88	361	1	513	(122)	925	45	970
Average balance of assets (a)	110,153	74,622	10,551	309	50,674	23,881	62,547	2,446	138,409	11,334	399,753	34,495	434,248
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-	-	-	-	898	-	898	-	898
Average balance of loans to the public (a)	110,061	74,623	10,528	302	50,601	23,794	60,493	1,427	-	-	246,678	22,446	269,124
Balance of loans to the public at the end of the reporting period	113,017	75,824	10,545	454	49,764	23,573	58,638	917	-	-	246,363	23,239	269,602
Balance of impaired debts	260	-	15	-	570	391	1,525	45	-	-	2,791	719	3,510
Balance of debts in arrears of more than 90 days	831	717	-	-	61	-	28	-	-	-	920	5	925
Average balance of liabilities (a)	114,498	28	159	29,338	36,284	31,857	50,866	60,839	40,791	13,867	378,340	26,234	404,574
Of which: Average balance of deposits from the public (a)	114,006	28	84	29,242	33,169	30,771	47,489	58,027	-	-	312,704	25,364	338,068
Balance of deposits of the public at the end of the reporting period	115,171	-	78	28,975	33,932	31,145	45,220	58,770	-	-	313,213	26,785	339,998
Average balance of risk-weighted assets (a) (b)	85,325	54,827	9,227	882	50,830	29,899	63,215	2,712	19,781	16,171	268,815	29,601	298,416
Balance of risk-weighted assets at the end of the reporting period (b)	86,313	55,462	9,334	797	50,459	35,071	58,968	1,737	18,758	16,748	268,851	31,080	299,931
Average balance of assets under management (a) (c)	79,227	-	-	50,432	26,983	20,289	67,349	489,615	38,429	-	772,324	19,144	791,468
Distribution of interest income (expenses), net:													
Margin on credit granting activity	567	171	58	2	378	125	322	5	816	-	2,215	241	2,456
Margin on deposit taking activity	66	-	1	21	12	13	11	10	(485)	-	(352)	(36)	(388)
Other	1	-	-	-	(1)	-	-	-	(58)	-	(58)	24	(34)
Total interest income, net	634	171	59	23	389	138	333	15	273	-	1,805	229	2,034

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 12A – Regulatory operating segments (cont'd)

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

	For the six months ended 30 June 2017												
	Activity in Israel												
	Households			Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Of which:	Of which: credit cards											
	housing loans												
Total													
Unaudited NIS millions													
Interest income from outside entities	1,981	1,088	133	4	1,027	362	842	15	421	-	4,652	554	5,206
Interest expense to outside entities	201	-	-	57	22	43	91	240	449	-	1,103	65	1,168
Interest income (expenses), net:													
From outside entities	1,780	1,088	133	(53)	1,005	319	751	(225)	(28)	-	3,549	489	4,038
Intersegmental	(420)	(683)	(2)	99	(104)	(1)	(185)	259	366	-	14	(14)	-
Total interest income (expenses)	1,360	405	131	46	901	318	566	34	338	-	3,563	475	4,038
Total non-interest income (expenses)	882	23	452	85	356	157	328	88	442	36	2,374	133	2,507
Total income (expenses)	2,242	428	583	131	1,257	475	894	122	780	36	5,937	608	6,545
Expenses (income) for credit losses	72	(9)	28	2	152	(29)	(68)	2	(10)	-	121	22	143
Operating and other expenses:													
To outside entities	1,818	138	367	65	682	240	262	135	74	392	3,668	402	4,070
Intersegmental	17	-	17	-	-	-	-	1	(19)	-	(1)	1	-
Total operating and other expenses	1,835	138	384	65	682	240	262	136	55	392	3,667	403	4,070
Profit (loss) before taxes	335	299	171	64	423	264	700	(16)	735	(356)	2,149	183	2,332
Provision for (benefit from) taxes on the profit	104	104	47	23	148	94	244	(6)	258	(77)	788	56	844
Profit (loss) after taxes	231	195	124	41	275	170	456	(10)	477	(279)	1,361	127	1,488
Share of the Bank in profits of associate companies	-	-	-	-	-	-	-	-	25	-	25	-	25
Net income (loss) before attribution to non-controlling interests	231	195	124	41	275	170	456	(10)	502	(279)	1,386	127	1,513
Net income (loss) due to non-controlling interests	19	-	19	-	1	-	1	-	-	(6)	15	-	15
Net income (loss) due to shareholders of the Bank	212	195	105	41	274	170	455	(10)	502	(273)	1,371	127	1,498
Average balance of assets (a)	109,383	70,976	11,524	398	52,058	23,918	52,871	1,824	148,298	9,288	398,038	36,359	434,397
Of which: Investments in associate companies (a)	-	-	-	-	-	-	-	-	889	-	889	-	889
Average balance of loans to the public (a)	109,284	70,993	11,504	391	52,156	23,971	54,237	2,282	-	-	242,321	23,642	265,963
Balance of loans to the public at the end of the reporting period	110,080	71,648	12,006	457	53,740	24,911	53,930	2,090	-	-	245,208	22,578	267,786
Balance of impaired debts	121	-	22	-	454	298	1,955	2	-	-	2,830	610	3,440
Balance of debts in arrears of more than 90 days	774	700	-	-	66	-	9	-	-	-	849	8	857
Average balance of liabilities (a)	114,545	-	106	29,452	41,910	32,783	48,510	55,990	40,431	11,603	375,224	27,455	402,679
Of which: Average balance of deposits of the public (a)	114,323	-	74	29,359	38,682	31,784	46,549	54,262	-	-	314,959	26,067	341,026
Balance of deposits of the public at the end of the reporting period	114,662	-	70	27,878	41,050	32,509	43,190	59,142	-	-	318,431	24,335	342,766
Average balance of risk-weighted assets (a) (b)	86,032	54,897	10,261	787	52,418	34,432	54,377	1,631	17,685	17,101	264,463	31,174	295,637
Balance of risk-weighted assets at the end of the reporting period (b)	86,316	55,078	10,295	781	56,787	34,443	52,331	1,713	20,630	16,102	269,103	30,005	299,108
Average balance of assets under management (a) (c)	78,988	-	-	49,310	28,655	18,860	74,640	548,400	34,039	-	832,892	19,118	852,010
Distribution of interest income (expenses), net:													
Margin on credit granting activity	1,221	405	131	2	857	280	535	8	1,377	-	4,280	464	4,744
Margin on deposit taking activity	139	-	-	44	44	38	30	24	(959)	-	(640)	(67)	(707)
Other	-	-	-	-	-	-	1	2	(80)	-	(77)	78	1
Total interest income (expense), net	1,360	405	131	46	901	318	566	34	338	-	3,563	475	4,038

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.

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

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

	For the six months ended 30 June 2016 (d)												
	Activity in Israel												
	Households			Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Of which:	Of which:											
	housing loans	credit cards											
Total													
NIS millions													
Interest income from outside entities	1,618	757	121	5	901	329	796	10	443	-	4,102	527	4,629
Interest expense to outside entities	165	-	1	44	21	34	84	197	329	-	874	66	940
Interest income, net													
From outside entities	1,453	757	120	(39)	880	295	712	(187)	114	-	3,228	461	3,689
Intersegmental	(202)	(413)	(2)	81	(96)	(15)	(127)	213	161	-	15	(15)	-
Total interest income (expenses), net	1,251	344	118	42	784	280	585	26	275	-	3,243	446	3,689
Total non-interest income	848	19	425	81	343	158	329	84	562	18	2,423	147	2,570
Total income	2,099	363	543	123	1,127	438	914	110	837	18	5,666	593	6,259
Expenses (income) for credit losses	206	8	68	1	92	(40)	(472)	(11)	(54)	-	(278)	1	(277)
Operating and other expenses (income):													
To outside entities	1,955	127	374	65	647	241	316	134	74	484	3,916	429	4,345
Intersegmental	9	-	9	-	-	-	-	1	(10)	-	-	-	-
Total operating and other expenses	1,964	127	383	65	647	241	316	135	64	484	3,916	429	4,345
Profit (loss) before taxes	(71)	228	92	57	388	237	1,070	(14)	827	(466)	2,028	163	2,191
Provision for (benefit from) taxes on the profit	(42)	80	20	21	137	84	382	(5)	325	(163)	739	39	778
Profit (loss) after taxes	(29)	148	72	36	251	153	688	(9)	502	(303)	1,289	124	1,413
Share of the Bank in profits (losses) of associate companies	-	-	-	-	-	-	-	-	35	-	35	-	35
Net income (loss) before attribution to non-controlling interests	(29)	148	72	36	251	153	688	(9)	537	(303)	1,324	124	1,448
Net income (loss) due to non-controlling interests	18	-	18	-	2	1	-	-	-	(2)	19	-	19
Net income (loss) due to shareholders of the Bank	(47)	148	54	36	249	152	688	(9)	537	(301)	1,305	124	1,429
Average balance of assets (a)	112,595	75,203	10,423	410	48,362	23,323	60,109	1,601	137,991	9,367	393,758	34,808	428,566
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-	-	-	-	903	-	903	-	903
Average balance of loans to the public (a)	112,489	75,204	10,404	403	48,320	23,284	59,693	1,092	-	-	245,281	23,118	268,399
Balance of loans to the public at the end of the reporting period	113,017	75,824	10,545	454	49,764	23,573	58,638	917	-	-	246,363	23,239	269,602
Balance of impaired debts	260	-	15	-	570	391	1,525	45	-	-	2,791	719	3,510
Balance of debts in arrears of more than 90 days	831	717	-	-	61	-	28	-	-	-	920	5	925
Average balance of liabilities (a)	113,166	-	159	29,341	35,626	31,491	50,983	58,073	42,962	10,451	372,093	27,370	399,463
Of which: Average balance of deposits of the public (a)	112,693	-	73	29,245	32,508	30,423	48,298	55,465	-	-	308,632	25,964	334,596
Balance of deposits of the public at the end of the reporting period	115,171	-	78	28,975	33,932	31,145	45,220	58,770	-	-	313,213	26,785	339,998
Average balance of risk-weighted assets (a) (b)	85,078	54,668	9,201	877	48,939	34,738	63,927	1,918	19,117	15,397	269,991	30,531	300,522
Balance of risk-weighted assets at the end of the reporting period (b)	86,313	55,462	9,334	797	50,459	35,071	58,968	1,737	18,758	16,748	268,851	31,080	299,931
Average balance of assets under management (a) (c)	78,948	-	-	50,479	26,574	20,148	68,365	489,372	38,242	-	772,128	19,258	791,386
Distribution of interest income (expenses), net:													
Margin on credit granting activity	1,130	344	117	3	758	258	563	7	1,002	-	3,721	474	4,195
Margin on deposit taking activity	121	-	1	39	26	22	22	18	(749)	-	(501)	(63)	(564)
Other	-	-	-	-	-	-	-	1	22	-	23	35	58
Total interest income (expenses), net	1,251	344	118	42	784	280	585	26	275	-	3,243	446	3,689

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) 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												Total activity abroad	Total
	Households			Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management segment	Other segment	Total activity in Israel			
	Total	Of which: housing loans	Of which: credit cards											
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	307	-	30	(30)	-	
Total interest income (expenses), net	2,578	716	242	86	1,600	571	1,162	57	566	-	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	1,874	139	11,785	1,149	12,934	
Expenses (income) for 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)	1,760	(309)	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)	1,085	(298)	2,664	98	2,762	
Share of the Bank in profits (losses) of associate companies	-	-	-	-	-	-	-	-	66	-	66	-	66	
Net income (loss) before attribution to non-controlling interests	(172)	312	223	73	470	329	1,198	(21)	1,151	(298)	2,730	98	2,828	
Net income (loss) due to non-controlling interests	42	-	42	-	4	2	4	-	(1)	(14)	37	-	37	
Net income (loss) due to shareholders of the Bank	(214)	312	181	73	466	327	1,194	(21)	1,152	(284)	2,693	98	2,791	
Average balance of assets (a)	112,969	74,856	10,820	410	48,622	24,579	59,113	891	140,098	10,432	397,114	35,692	432,806	
Of which: Investments in companies included on equity basis (a)	-	-	-	-	-	-	-	-	1,341	-	1,341	-	1,341	
Average balance of loans to the public (a)	112,063	74,856	10,802	393	48,429	24,770	59,338	891	-	-	245,884	23,426	269,310	
Balance of loans to the public at the end of the reporting period	110,894	73,055	11,190	424	50,763	24,171	53,766	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 period	117,863	-	68	28,696	36,535	33,026	48,151	55,862	-	-	320,133	26,721	346,854	
Average balance of risk-weighted assets (a) (b)	85,861	53,842	9,651	892	46,207 (d)	32,715 (d)	62,615 (d)	1,118 (d)	21,880	16,338	267,626	30,814	298,440	
Balance of risk-weighted assets at the end of the reporting period (b)	85,938	53,890	9,660	765	51,797 (d)	34,381 (d)	53,792 (d)	1,455 (d)	15,558	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	(41)	-	(37)	90	53	
Total interest income (expenses), net	2,578	716	242	86	1,600	571	1,162	57	566	-	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.

Information on operating segments – management approach appeared in Note 29B of the financial statements as at 31 December 2016.

Below is a condensed summary of operating results by management approach

For the three months ended 30 June 2017 (Unaudited)									
NIS millions									
	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			Total
Interest income, net	1,039	248	143	112	309	2	68	244	2,165
Noninterest income	446	104	50	81	116	25	309	89	1,220
Total income	1,485	352	193	193	425	27	377	333	3,385
Expenses (income) for credit losses	116	5	(58)	(50)	(1)	(1)	14	17	42
Total operating and other expenses	1,023	171	70	31	75	189	259	202	2,020
Profit before tax	346	176	181	212	351	(161)	104	114	1,323
Tax expenses (income)	121	62	63	74	123	(40)	25	28	456
Net income (loss) due to shareholders of the Bank	225	114	118	138	227	(121)	89	86	876

For the three months ended 30 June 2016(a) (Unaudited)									
NIS millions									
	Bank						Subsidiaries in Israel	Subsidiaries abroad	
	Banking	Commercial	Corporate (b)	Real Estate (b)	Financial Management	Other			Total
Interest income, net	925	217	146	126	300	27	57	236	2,034
Noninterest income	435	95	59	91	153	466	246	(7)	1,538
Total income	1,360	312	205	217	453	493	303	229	3,572
Expenses (income) for credit losses	141	10	(221)	(55)	(25)	(11)	13	(6)	(154)
Total operating and other expenses	1,136	176	90	47	77	382	228	219	2,355
Profit (loss) before tax	83	126	336	225	401	122	62	16	1,371
Tax expenses (income)	30	45	120	80	144	(145)	113	20	407
Net income due to shareholders of the Bank	53	81	216	145	257	267	(45)	(4)	970

(a) Restated.

(b) In 2017, segmentation was carried out of customers from the real estate segment to the corporate segment.

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

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

For the six months ended 30 June 2017 (Unaudited)									
NIS millions									
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			
Interest income, net	2,019	483	284	220	415	1	129	487	4,038
Noninterest income	897	206	109	165	380	104	602	44	2,507
Total income	2,916	689	393	385	795	105	731	531	6,545
Expenses (income) for credit losses	209	9	(65)	(35)	(16)	(8)	31	18	143
Total operating and other expenses	2,079	332	137	65	144	421	491	401	4,070
Profit (loss) before tax	628	348	321	355	667	(308)	209	112	2,332
Tax expenses (income)	220	122	112	124	234	(78)	54	56	844
Net income (loss) due to shareholders of the Bank	408	226	209	231	432	(230)	166	56	1,498

Balances at 30 June 2017

Loans to the public, net	138,654	35,367	32,716	19,732	4,417	3,149	8,221	22,228	264,484
Deposits from the public	189,621	41,234	19,704	5,393	62,337	71	70	24,336	342,766
Assets under management	185,060	24,682	20,414	1,400	387,811	26,206	235,885	18,639	900,097

For the six months ended 30 June 2016(a) (Unaudited)									
NIS millions									
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate (b)	Real Estate (b)	Financial Management	Other			
Interest income, net	1,836	438	261	268	318	-	106	462	3,689
Noninterest income	875	202	111	176	97	534	561	14	2,570
Total income	2,711	640	372	444	415	534	667	476	6,259
Expenses (income) for credit losses	295	(1)	(303)	(231)	(29)	(6)	15	(17)	(277)
Total operating and other expenses	2,187	339	177	89	148	532	445	428	4,345
Profit before tax	229	302	498	586	296	8	207	65	2,191
Tax expenses (income)	82	108	178	210	106	(102)	158	38	778
Net income due to shareholders of the Bank	147	194	320	376	191	110	64	27	1,429

Balances at 30 June 2016

Loans to the public, net	140,443	34,049	31,166	24,243	3,540	2,853	6,914	22,840	266,048
Deposits from the public	187,318	39,823	17,607	6,480	61,808	98	78	26,786	339,998
Assets under management (b)	179,621	25,404	16,062	1,855	335,683	23,770	183,701	20,433	786,529

(a) Reclassified.

(b) Restated.

(c) In 2017, segmentation was carried out of customers from the real estate segment to the corporate segment.

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

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

For the year 31 December 2016 (Audited)									
NIS millions									
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate (b)	Real Estate (b)	Financial Management	Other			
Interest income, net	3,761	895	521	526	650	(1)	237	937	7,526
Noninterest 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) for 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 income due to shareholders of the Bank	173	427	481	696	774	75	231	(66)	2,791
Balances at 31 December 2016									
Loans to the public, net	138,638	34,089	30,238	21,229	3,779	2,966	7,407	23,567	261,913
Deposits from 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	365,544	25,503	189,681	19,244	823,812

(a) Restated.

(b) In 2017, segmentation was carried out of customers from the real estate segment to the corporate segment.

Note 13 – Additional Information on Credit Risk, Loans 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 30 June 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	2,740	470	769	3,979	1	3,980
Expenses (income) for credit losses	(12)	(11)	65	42	-	42
Accounting write-offs	(249)	(2)	(145)	(396)	-	(396)
Collection of debts written off in previous years	122	-	85	207	-	207
Net accounting write-offs	(127)	(2)	(60)	(189)	-	(189)
Adjustments from translation of financial statements	(7)	-	-	(7)	-	(7)
Balance of allowance for credit losses at end of the reporting period ¹	2,594	457	774	3,825	1	3,826
¹ Of which: in respect of off-balance sheet credit instruments	484	-	39	523	-	523

	For the three months ended 30 June 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	NIS millions					
Balance of allowance for credit losses at beginning of the reporting period	2,745	510	755	4,010	2	4,012
Expenses (income) for credit losses	(244)	8	82	(154)	-	(154)
Accounting write-offs	(29)	(3)	(164)	(196)	-	(196)
Collection of debts written off in previous years	243	-	107	350	-	350
Net accounting write-offs	214	(3)	(57)	154	-	154
Adjustments from translation of financial statements	2	(2)	(1)	(1)	-	(1)
Balance of allowance for credit losses at end of the reporting period ¹	2,717	513	779	4,009	2	4,011
¹ Of which: in respect of off-balance sheet credit instruments	422	-	33	455	-	455

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

Note 13 – Additional Information on Credit Risk, Loans to the Public and Allowance for Credit Losses

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

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

	For the six months ended 30 June 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) for credit losses	84	(13)	72	143	-	143
Accounting write-offs	(428)	(4)	(317)	(749)	-	(749)
Collection of debts written off in previous years	228	-	194	422	-	422
Net accounting write-offs	(200)	(4)	(123)	(327)	-	(327)
Adjustments from translation of financial statements	(17)	1	-	(16)	-	(16)
Balance of allowance for credit losses at end of the reporting period ¹	2,594	457	774	3,825	1	3,826
¹ Of which: in respect of off-balance sheet credit instruments	484	-	39	523	-	523

	For the six months ended 30 June 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 (income) for credit losses	(512) (b)	6	230 (b)	(276)	(1)	(277)
Accounting write-offs	(221)	(5)	(306)	(532)	-	(532)
Collection of debts written off in previous years	472	-	197	669	-	669
Net accounting write-offs	251	(5)	(109)	137	-	137
Adjustments from translation of financial statements	(3)	(1)	(1)	(5)	-	(5)
Balance of allowance for credit losses at end of the reporting period ¹	2,717	513	779	4,009	2	4,011
¹ Of which: in respect of off-balance sheet credit instruments	422	-	33	455	-	455

(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) Reclassified.

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

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

2. Additional information on the method of calculating the credit loss allowance in respect of debts^a and on debts^a on which it was calculated

	30 June 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	110,004	39	645	110,688	8,657	119,345
Examined on a collective basis ¹	40,050	78,457	38,591	157,098	1,298	158,396
¹ Of which: the allowance was calculated by extent of arrears	945 (c)	78,007	-	78,952	-	78,952
Total debts(a)	150,054	78,496	39,236	267,786	9,955	277,741
Allowance for credit losses for debts^a:						
Examined on an individual basis	1,683	5	76	1,764	1	1,765
Examined on a collective basis ²	427	452	659	1,538	-	1,538
² Of which the allowance was calculated by extent of arrears	-	448 (b)	-	448	-	448
Total allowance for credit losses ³	2,110	457	735	3,302	1	3,303
³ Of which in respect of impaired debts	564	-	27	591	-	591

(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 289 million at 30 June 2017 (30 June 2016 – NIS 308 million).

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

Note 13 – Additional Information on Credit Risk, Loans 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)

	30 June 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	110,037 (d)	68 (d)	819 (d)	110,924	9,413	120,337
Examined on a collective basis ¹	39,494	81,903	37,281	158,678	4,229	162,907
¹ Of which: the allowance was calculated by extent of arrears	982 (c)	80,843	-	81,825	-	81,825
Total debts(a)	149,531	81,971	38,100	269,602	13,642	283,244
Allowance for credit losses for debts ^a :						
Examined on an individual basis	1,914	10	76	2,000	2	2,002
Examined on a collective basis ²	381	503	670	1,554	-	1,554
² Of which the allowance was calculated by extent of arrears	-	500 (b)	-	500	-	500
Total allowance for credit losses ³	2,295	513	746	3,554	2	3,556
³ Of which in respect of impaired debts	675	-	33	708	-	708

- (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 289 million at 30 June 2017 (30 June 2016 – NIS 308 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, Loans 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	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)	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 ²	420 (d)	467	732 (d)	1,619	-	1,619
² Of which the allowance was calculated by extent of arrears	-	462 (b)	-	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, Loans to the Public and Allowance for Credit Losses (cont'd)

B. Debts ^a

1. Credit quality and arrears

30 June 2017 (Unaudited)						
	Problem debts (b)			Total	Unimpaired debts - additional information	
	Non problematic (NIS millions)	Not impaired	Impaired (c)		In arrears of 90 days or more (d)(h)	In arrears of 30 to 89 days (e)
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction (g)	16,306	209	236	16,751	16	33
Construction & real estate - real estate activities (g)	23,314	196	631	24,141	5	31
Financial services	10,442	4	321	10,767	2	10
Commercial - other	67,555	1,457	1,497	70,509	53	159
Total commercial	117,617	1,866	2,685	122,168	76	233
Private individuals - housing loans (f)	77,296	700	-	77,996	700	495
Private individuals - other	38,193	461	120	38,774	73	208
Total public - activity in Israel	233,106	3,027	2,805	238,938	849	936
Israeli banks	1,156	-	-	1,156	-	-
Government of Israel	154	-	-	154	-	-
Total activity in Israel	234,416	3,027	2,805	240,248	849	936
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate (g)	9,460	88	265	9,813	1	3
Commercial - other	17,083	664	326	18,073	7	56
Total commercial	26,543	752	591	27,886	8	59
Private individuals	918	-	44	962	-	3
Total public - activity abroad	27,461	752	635	28,848	8	62
Foreign banks	8,180	-	-	8,180	-	-
Foreign governments	465	-	-	465	-	-
Total activity abroad	36,106	752	635	37,493	8	62
Total public	260,567	3,779	3,440	267,786	857	998
Total banks	9,336	-	-	9,336	-	-
Total governments	619	-	-	619	-	-
Total	270,522	3,779	3,440	277,741	857	998

See notes on page 182.

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

B. Debts^a (cont'd)

1. Credit quality and arrears (cont'd)

	30 June 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)					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	15,945	261	157	16,363	16	30
Construction & real estate - real estate activities	24,284	592	626	25,502	9	20
Financial services	10,175	91	51	10,317	2	6
Commercial - other	65,889	1,742	1,687	69,318	53	101
Total commercial	116,293	2,686	2,521	121,500	80	157
Private individuals - housing loans (f)	80,082	749	-	80,831	725	477
Private individuals - other	36,811	462	260	37,533	114	247
Total public - activity in Israel	233,186	3,897	2,781	239,864	919	881
Israeli banks	3,103	-	-	3,103	-	-
Government of Israel	221	-	-	221	-	-
Total activity in Israel	236,510	3,897	2,781	243,188	919	881
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	8,816 (i)	137	371	9,324	5	14
Commercial - other	18,089 (i)	316	302	18,707	-	84
Total commercial	26,905 (i)	453	673	28,031	5	98
Private individuals	1,649 (i)	2	56	1,707	1	2
Total public - activity abroad	28,554	455	729	29,738	6	100
Foreign banks	10,059	-	-	10,059	-	-
Foreign governments	259	-	-	259	-	-
Total activity abroad	38,872	455	729	40,056	6	100
Total public	261,740	4,352	3,510	269,602	925	981
Total banks	13,162	-	-	13,162	-	-
Total governments	480	-	-	480	-	-
Total	275,382	4,352	3,510	283,244	925	981

See notes on page 182.

Note 13 – Additional Information on Credit Risk, Loans 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)						
	Non problematic	Problem debts (b)		Total	Unimpaired debts - additional information	
		Not impaired	Impaired (c)		In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
NIS millions						
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
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
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
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, Loans 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 627 million were classified as problem debts that are not impaired (30 June 2016 – NIS 574 million, 31 December 2016 – NIS 674 million).
- (f) Including balance of housing loans in the amount of NIS 99 million (30 June 2016 – NIS 123 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) 3.6% 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 debts in arrears of 90 days or more, as at 30 June 2017, NIS 849 million, is credit given by the Bank, of which NIS 149 million is in respect of non-housing loans, and about NIS 700 million is in respect of housing loans, of which NIS 146 million is in arrears of up to 149 days, NIS 133 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) Reclassified.

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, Loans to the Public and Allowance for Credit Losses (cont'd)

B. Debts^a (cont'd)

2. Additional information on impaired debts

a. Impaired debts and individual allowance

	30 June 2017 (Unaudited)				
	Balance (b) of impaired debts in respect of which there is an individual 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				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	34	25	202	236	769
Construction & real estate - real estate activities	118	75	513	631	1,743
Financial services	1	1	320	321	780
Commercial - other	640	308	857	1,497	4,651
Total commercial	793	409	1,892	2,685	7,943
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	21	18	99	120	2,317
Total public - activity in Israel	814	427	1,991	2,805	10,260
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	814	427	1,991	2,805	10,260
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	189	93	76	265	425
Commercial - other	233	62	93	326	666
Total commercial	422	155	169	591	1,091
Private individuals	27	9	17	44	106
Total public - activity abroad	449	164	186	635	1,197
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	449	164	186	635	1,197
Total public	1,263	591	2,177	3,440	11,457
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,263	591	2,177	3,440	11,457
Of which:					
Measured by present value of cash flows					
	898	397	1,364	2,262	
Debts under troubled debt restructuring					
	297	181	1,584	1,881	

(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, Loans to the Public and Allowance for Credit Losses (cont'd)

B. Debts^a (cont'd)

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

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

	30 June 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				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
Construction & real estate - construction	84	33	73	157	675
Construction & real estate - real estate activities	191	122	435	626	1,626
Financial services	4	1	47	51	564
Commercial - other	966	307	721	1,687	4,670
Total commercial	1,245	463	1,276	2,521	7,535
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	118	21	142	260	2,131
Total public - activity in Israel	1,363	484	1,418	2,781	9,666
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,363	484	1,418	2,781	9,666
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
Construction & real estate	259	128	112	371	497
Commercial - other	239	84	63	302	595
Total commercial	498	212	175	673	1,092
Private individuals	19	12	37	56	110
Total public - activity abroad	517	224	212	729	1,202
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	517	224	212	729	1,202
Total public	1,880	708	1,630	3,510	10,868
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	1,880	708	1,630	3,510	10,868
Of which:					
Measured by present value of cash flows	1,508	523	796	2,304	
Debts under troubled debt restructuring	395	161	1,159	1,554	

(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, Loans 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 individual 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				
<u>Activity of borrowers in Israel</u>					
<u>Public - commercial</u>					
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
<u>Activity of borrowers abroad</u>					
<u>Public - commercial</u>					
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, Loans to the Public and Allowance for Credit Losses (cont'd)

B. Debts^a (cont'd)

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

b. Average balance and interest income

	For the three months ended 30 June 2017			For the three months ended 30 June 2016		
	Average balance ^(b) of impaired debts	Interest income recorded ^(c)	Of which: recorded on cash basis	Average balance of impaired debts ^(b)	Interest income recorded ^(c)	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	256	1	1	372	3 (e)	3(e)
Construction & real estate - real estate activities	616	5	4	748 (e)	3	2
Financial services	384	-	-	54	-	-
Commercial - other	1,512	5	2	1,629	9(e)	7 (e)
Total commercial	2,768	11	7	2,803 (e)	15	12
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	116	1	-	126	- (e)	- (e)
Total public - activity in Israel	2,884	12	7	2,929	15	12
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	2,884	12	7	2,929	15	12
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	297	1	1	402	2	2
Commercial - other	319	1	1	298	3	2
Total commercial	616	2	2	700	5	4
Private individuals	33	-	-	57	3	3
Total public - activity abroad	649	2	2	757	8	7
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	649	2	2	757	8	7
Total public	3,533	14	9	3,686	23	19
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	3,533	14 (d)	9	3,686	23 (d)	19

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

(b) Average recorded balance of debt on impaired debts in the reporting period.

(c) Interest income recorded in the reporting period, for the average balance of impaired debts, in the period in which the debts were classified as impaired.

(d) If the impaired debts would have accrued interest according to the original terms, interest income would have been recorded in the three-month period that ended 30 June 2017 of NIS 76 million (30 June 2016 – NIS 81 million).

(e) Restated.

Note 13 – Additional Information on Credit Risk, Loans 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 (cont'd)

	For the six months ended 30 June 2017			For the six months ended 30 June 2016		
	Average balance ^(b) of impaired debts	Interest income recorded ^(c)	Of which: recorded on cash basis	Average balance (b) of impaired debts	Interest income recorded ^(c)	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	252	1	1	329	4 (e)	4 (e)
Construction & real estate - real estate activities	623	7	5	689	4	3 (e)
Financial services	371	-	-	53	-	-
Commercial - other	1,509	11	4	1,640	12(e)	10(e)
Total commercial	2,755	19	10	2,711	20	17
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	117	3	1	152	- (e)	-(e)
Total public - activity in Israel	2,872	22	11	2,863	20	17
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	2,872	22	11	2,863	20	17
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	290	2	2	393	4	4
Commercial - other	318	2	2	323	5	4
Total commercial	608	4	4	716	9	8
Private individuals	32	-	-	47	4	4
Total public - activity abroad	640	4	4	763	13	12
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	640	4	4	763	13	12
Total public	3,512	26	15	3,626	33	29
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	3,512	26 ^(d)	15	3,626	33 (d)	29

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Average recorded balance of debt on impaired debts in the reporting period.
- (c) Interest income recorded in the reporting period, for the average balance of impaired debts, in the period in which the debts were classified as impaired.
- (d) If the impaired debts would have accrued interest according to the original terms, interest income would have been recorded in the three-month period that ended 30 June 2017 of NIS 153 million (30 June 2016 – NIS 161 million).
- (e) Restated.

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

B. Debts^a (cont'd)

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

c. Problem debts under restructuring (d)

	30 June 2017				30 June 2016			
	Not accruing interest income	Accruing of 30 to 89 days (b)	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing of 30 to 89 days (b)	Accruing (b) not in arrears	Total (c)
	Unaudited							
	NIS millions							
<u>Activity of borrowers in</u>								
<u>Israel</u>								
<u>Public - commercial</u>								
Construction & real estate - construction	167	-	6	173	23	1	20	44
Construction & real estate - real estate activities	348	-	36	384	245	-	127	372
Financial services	318	-	-	318	-	-	-	-
Commercial - other	416	1	244	661	429	5	233	667
Total commercial	1,249	1	286	1,536	697	6	380	1,083
Private individuals - housing loans	-	-	-	-	-	-	-	-
Private individuals - other	39	1	21	61	53	2	18	73
Total public - activity in Israel								
Israel	1,288	2	307	1,597	750	8	398	1,156
Israeli banks	-	-	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-	-	-
Total activity in Israel	1,288	2	307	1,597	750	8	398	1,156
<u>Activity of borrowers abroad</u>								
<u>Public - commercial</u>								
Construction & real estate	121	-	63	184	166	-	115	281
Commercial - other	28	-	63	91	25	1	66	92
Total commercial	149	-	126	275	191	1	181	373
Private individuals	4	-	5	9	4	-	21	25
Total public - activity abroad	153	-	131	284	195	1	202	398
Foreign banks	-	-	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-	-	-
Total activity abroad	153	-	131	284	195	1	202	398
Total public	1,441	2	438	1,881	945	9	600	1,554
Total banks	-	-	-	-	-	-	-	-
Total governments	-	-	-	-	-	-	-	-
Total	1,441	2	438	1,881	945	9	600	1,554

(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) 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 in the annual financial statements for 2016

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 30 June 2017 to NIS 17 million (as at 30 June 2016 – NIS 30 million).

Note 13 – Additional Information on Credit Risk, Loans 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) (d)

	31 December 2016 (Audited)			
	Not accruing interest income	Accruing in arrears of 30 to 89 days (b)	Accruing ^(b) not in arrears	Total ^(c)
	NIS millions			
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
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
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
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) 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 to the annual financial statements for 2016.

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, Loans 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 30 June 2017			For the three months ended 30 June 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Unaudited					
	NIS millions			NIS millions		
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	46	4	3	43	9	8
Construction & real estate - real estate activities	11	4	4	8	2	1
Financial services	1	-	-	1	-	-
Commercial - other	242	105	104	149	20	11
Total commercial	300	113	111	201	31	20
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	1,490	12	11	1,198	18	4
Total public - activity in Israel	1,790	125	122	1,399	49	24
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	1,790	125	122	1,399	49	24
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	-	-	-	1	7	7
Commercial - other	3	2	2	4	21	21
Total commercial	3	2	2	5	28	28
Private individuals	-	-	-	1	-	-
Total public - activity abroad	3	2	2	6	28	28
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	3	2	2	6	28	28
Total public	1,793	127	124	1,405	77	52
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	1,793	127	124	1,405	77	52

(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 to the annual financial statements for 2016.

Note 13 – Additional Information on Credit Risk, Loans 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 (cont'd)

	For the six months ended 30 June 2017			For the six months ended 30 June 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		
<u>Activity of borrowers in Israel</u>						
<u>Public - commercial</u>						
Construction & real estate - construction	82	9	8	95	17	16
Construction & real estate - real estate activities	20	6	6	19	5	4
Financial services	8	-	-	4	-	-
Commercial - other	473	124	122	366	43	34
Total commercial	583	139	136	484	65	54
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	3,445	31	30	2,771	39	22
Total public - activity in Israel	4,028	170	166	3,255	104	76
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	4,028	170	166	3,255	104	76
<u>Activity of borrowers abroad</u>						
<u>Public - commercial</u>						
Construction & real estate	1	9	9	3	21	21
Commercial - other	8	3	3	8	29	29
Total commercial	9	12	12	11	50	50
Private individuals	1	-	-	3	-	-
Total public - activity abroad	10	12	12	14	50	50
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	10	12	12	14	50	50
Total public	4,038	182	178	3,269	154	126
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	4,038	182	178	3,269	154	126

(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 to the annual financial statements for 2016.

Note 13 – Additional Information on Credit Risk, Loans 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^(c)

	For the three months ended 30 June 2017		For the three months ended 30 June 2016	
	Number of contracts	Recorded debt balance ^(d)	Number of contracts	Recorded debt balance ^(c)
	Unaudited		Unaudited	
	NIS millions		NIS millions	
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
Construction & real estate - construction	29	-	13	2
Construction & real estate - real estate activities	7	1	1	-
Financial services	3	-	5	-
Commercial - other	133	4	40	7
Total commercial	172	5	59	9
Private individuals - housing loans	-	-	-	-
Private individuals - other	1,021	2	358	1
Total public - activity in Israel	1,193	7	417	10
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	1,193	7	417	10
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
Construction & real estate	-	-	1	9
Commercial - other	3	22	2	1
Total commercial	3	22	3	10
Private individuals	-	-	-	-
Total public - activity abroad	3	22	3	10
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	3	22	3	10
Total public	1,196	29	420	20
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	1,196	29	420	20

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

(b) 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 to the annual financial statements for 2016.

(c) Debts that during the reporting year went into arrears of thirty days or more and underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.

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

Note 13 – Additional Information on Credit Risk, Loans 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) ^(b)

2. Failed restructurings carried out^(c) (cont'd)

	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Number of contracts	Recorded debt balance (d)	Number of contracts	Recorded debt balance (d)
	Unaudited			
	NIS millions		NIS millions	
<u>Activity of borrowers in Israel</u>				
<u>Public - commercial</u>				
Construction & real estate - construction	66	2	28	4
Construction & real estate - real estate activities	10	2	2	-
Financial services	7	-	6	-
Commercial - other	332	10	87	13
Total commercial	444	14	123	17
Private individuals - housing loans	-	-	-	-
Private individuals - other	2,301	10	611	5
Total public - activity in Israel	2,745	24	734	22
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	2,745	24	734	22
<u>Activity of borrowers abroad</u>				
<u>Public - commercial</u>				
Construction & real estate	1	2	4	10
Commercial - other	4	22	6	2
Total commercial	5	24	10	12
Total public - activity abroad	5	24	10	12
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	5	24	10	12
Total public	2,750	48	744	34
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	2,750	48	744	34

- (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 to the annual financial statements for 2016.
- (c) Debts that during the reporting year went into arrears of thirty days or more and underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.
- (d) The recorded balance of debt at the end of the quarter in which the default occurred.

Note 13 – Additional Information on Credit Risk, Loans 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

		30 June 2017 (Unaudited)			
		Total ¹	¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total
Balance of housing loans		NIS millions			
First charge: financing rate	Up to 60%	50,224	2,541	33,179	1,561
	More than 60%	28,233	848	19,885	158
Second charge or no charge		39	1	33	-
Total		78,496	3,390	53,097	1,719

		30 June 2016 (Unaudited)			
		Total ¹	¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total ^(c)
Balance of housing loans		NIS millions			
First charge: financing rate	Up to 60%	52,364	3,437	35,117	1,701
	More than 60%	29,595	1,237	21,097	483
Second charge or no charge		12	-	7	51
Total		81,971	4,674	56,221	2,235

		31 December 2016 (Audited)			
		Total ¹	¹ Of which: bullet and balloon	¹ Of which: variable interest	Off-balance sheet credit risk total ^(c)
Balance of housing loans		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.
- (c) Reclassified.

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

C. Off-balance sheet financial instruments

	30 June 2017		30 June 2016		31 December 2016	
	Contract	Balance of	Contract	Balance of	Contract	Balance of
	balances ^(a)	allowance	balances ^(a)	allowance	balances ^(a)	allowance
		for credit		for credit		for credit
		losses		losses		losses
	Unaudited				Audited	
	NIS millions					
Balances of contracts or their stated amounts at the end of the period						
Transactions in which the balance reflects a credit risk:						
Documentary credits	1,070	4	1,792	24	1,419	1
Credit guarantees	5,326	109	5,964	141	5,843	113
Guarantees to apartment purchasers	19,477	16	19,489	2	19,555	17
Other guarantees and liabilities (b)	15,461	247	16,598	170	15,859	236
Unutilized credit card facilities	26,304	27	24,994	14	25,522	26
Other unutilized revolving credit facilities and credit facilities in accounts on demand	12,415	26	12,883	35	12,492	24
Irrevocable commitments to provide credit which has been approved and not yet granted ¹	24,466	75	24,713	67	23,209	51
Commitments to issue guarantees	16,134	19	15,023	2	13,833	20
Unutilized facilities for activity in derivative instruments	2,849	-	3,253	-	2,912	-
Approval in principle for a guaranteed rate of interest	3,452	-	4,045	-	2,725	-

¹Of 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 210 million (30 June 2016 – NIS 231 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 116 million (as at 30 June 2016 and as at 31 December 2016, NIS 188 million and NIS 100 million, respectively).

D. Information on loans sold

In the current period there were no loans sold. In the first half of 2016, proceeds of NIS 248 million were received for housing loans and commercial loans. In 2016, proceeds of NIS 1,623 million and NIS 1,100 million were received for housing loans and commercial loans, respectively.

Note 14 –Assets and Liabilities by Linkage Basis

30 June 2017 (Unaudited)							
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to	In U.S.	In	In other	Non-	Total
	(NIS millions)	the CPI	dollars	euro	currencies	monetary items (b)	
Assets							
Cash and deposits with banks	60,420	-	5,085	972	2,713	162	69,352
Securities	38,347	4,273	24,526	5,543	2,587	3,194	78,470
Securities borrowed or purchased under agreements to resell	1,001	-	2	28	-	-	1,031
Loans to the public, net (c)	184,361	43,326	28,374	3,968	4,231	224	264,484
Loans to governments	54	100	419	46	-	-	619
Investments in associate companies	-	-	-	-	-	883	883
Buildings and equipment	-	-	-	-	-	2,954	2,954
Derivative assets	7,934	170	1,144	562	297	1,254	11,361
Intangible assets and goodwill	-	-	-	-	-	16	16
Other assets	5,953	4	700	4	26	1,110	7,797
Total assets	298,070	47,873	60,250	11,123	9,854	9,797	436,967
Liabilities							
Deposits from the public	222,371	19,654	82,172	11,823	6,297	449	342,766
Deposits from banks	1,155	10	2,467	619	79	-	4,330
Deposits from governments	39	-	581	5	-	-	625
Securities lent or sold under agreements to repurchase	239	-	-	-	-	5	244
Debentures, bonds and subordinated notes	6,343	15,994	-	-	-	-	22,337
Derivative liabilities	8,729	261	898	636	382	1,172	12,078
Other liabilities	8,589	11,146	721	22	142	1,074	21,694
Total liabilities	247,465	47,065	86,839	13,105	6,900	2,700	404,074
Surplus assets (liabilities) (d)	50,605	808	(26,589)	(1,982)	2,954	7,097	32,893
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding	(20,349)	(3,804)	26,456	1,486	(3,591)	(198)	-
Options in the money, net (in terms of underlying asset)	2,020	-	(2,101)	(63)	-	144	-
Options out of the money, net (in terms of underlying asset)	(625)	-	328	192	29	76	-
Total	31,651	(2,996)	(1,906)	(367)	(608)	7,119	32,893
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	2,133	-	(2,260)	(76)	15	188	-
Options out of the money, net (discounted par value)	1,014	-	(432)	(686)	112	(8)	-

(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 3,302 million.

(d) Shareholders' equity including non-controlling interests.

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

30 June 2016 (Unaudited)							
	Israeli currency		Foreign currency (a)				
	Unlinked (NIS millions)	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non- monetary items (b)	Total
Assets							
Cash and deposits with banks	45,222	242	7,768	1,089	3,179	381	57,881
Securities	42,433	4,866	33,525	1,053	1,015	1,980	84,872
Securities borrowed or purchased under agreements to resell	1,424	-	52	-	-	-	1,476
Loans to the public, net (c)	179,207	47,303	28,545	5,021	5,705	267	266,048
Loans to governments	75	146	198	61	-	-	480
Investments in associate companies	-	-	-	-	-	923	923
Buildings and equipment	-	-	-	-	-	3,042	3,042
Derivative assets	7,043	111	3,658	376	417	1,394	12,999
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	6,748	4	864	5	39	1,002	8,662
Total assets	282,152	52,672	74,610	7,605	10,355	9,006	436,400
Liabilities							
Deposits from the public	208,026	23,656	86,760	12,810	8,069	677	339,998
Deposits from banks	1,843	24	1,782	431	85	-	4,165
Deposits from governments	37	-	642	7	-	-	686
Securities lent or sold under agreements to repurchase	789	-	-	-	-	-	789
Debentures, bonds and subordinated notes	6,638	17,463	-	-	-	50	24,151
Derivative liabilities	7,416	141	3,820	462	553	1,351	13,743
Other liabilities	9,110	11,384	781	37	161	982	22,455
Total liabilities	233,859	52,668	93,785	13,747	8,868	3,060	405,987
Surplus assets (liabilities) (d)	48,293	4	(19,175)	(6,142)	1,487	5,946	30,413
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(22,700)	(1,257)	20,058	5,825	(1,942)	16	-
Options in the money, net (in terms of underlying asset)	1,146	-	(975)	15	(30)	(156)	-
Options out of the money, net (in terms of underlying asset)	485	-	(119)	(508)	(27)	169	-
Total	27,224	(1,253)	(211)	(810)	(512)	5,975	30,413
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,876	-	(1,564)	(87)	(15)	(210)	-
Options out of the money, net (discounted par value)	1,541	-	(837)	(1,200)	(57)	553	-

(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 3,554 million.

(d) Shareholders' equity including non-controlling interests.

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

31 December 2016 (Audited)							
	Israeli currency		Foreign currency (a)				
	Unlinked (NIS millions)	Linked to the CPI	In U.S. dollars	In euro	In other currencies	Non- monetary items (b)	Total
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
Loans to the public, net (c)	179,553	44,374	29,299	3,931	4,576	180	261,913
Loans to governments	57	149	382	54	-	-	642
Investments in associate companies	-	-	-	-	-	901	901
Buildings and equipment	-	-	-	-	-	3,147	3,147
Derivative assets	5,601	98	3,031	257	131	1,536	10,654
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	6,035	4	914	4	27	1,103	8,087
Total assets	291,150	48,573	72,395	8,425	8,948	9,112	438,603
Liabilities							
Deposits from 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
Derivative liabilities	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 non-controlling interests.

Note 15A – Balances and fair value assessments of financial instruments

	30 June 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	69,352	62,415	5,545	1,407	69,367
Securities (b)	78,470	48,553	27,545	2,360	78,458
Securities borrowed or purchased under agreements to resell	1,031	1,031	-	-	1,031
Loans to the public, net	264,484	2,390	73,406	187,703	263,499
Loans to governments	619	-	31	616	647
Derivative assets	11,361	863	9,002	1,496	11,361
Other financial assets	1,528	733	-	797	1,530
Total financial assets	426,845 (c)	115,985	115,529	194,379	425,893
Financial liabilities					
Deposits from the public	342,766	3,043	235,330	105,456	343,829
Deposits from banks	4,330	1	4,192	132	4,325
Deposits from governments	625	67	566	10	643
Securities lent or sold under agreements to repurchase	244	244	-	-	244
Debentures, notes and subordinated notes	22,337	18,240	-	5,322	23,562
Derivative liabilities	12,078	820	10,786	472	12,078
Other financial liabilities	8,355	1,473	5,335	1,547	8,355
Total financial liabilities	390,735 (c)	23,888	256,209	112,939	393,036
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	367	-	-	367	367
In addition, liabilities in respect of employee benefits, gross - pension and severance pay (d)	16,662	-	176	16,486	16,662

- (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 126,414 million and NIS 165,356 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B - 15D.
- (d) The liability is shown gross, and does not take the plan assets managed in its respect into account.

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

	30 June 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	57,881	47,496	8,586	1,848	57,930
Securities (b)	84,872	59,935	22,294(e)	2,643(e)	84,872
Securities borrowed or purchased under agreements to resell	1,476	1,476	-	-	1,476
Loans to the public, net	266,048	2,678	73,961	189,671	266,310
Loans to governments	480	-	62	438	500
Derivative assets	12,999	1,079	10,234	1,686	12,999
Other financial assets	1,512	783	-	729	1,512
Total financial assets	425,268 (c)	113,447 (c)	115,137	197,015	425,599
Financial liabilities					
Deposits from the public	339,998	3,636	217,985	119,514	341,135
Deposits from banks	4,165	-	4,082	85	4,167
Deposits from governments	686	-	593	93	686
Securities lent or sold under agreements to repurchase	789	789	-	-	789
Debentures, notes and subordinated notes	24,151	20,720	-	4,105	24,825
Derivative liabilities	13,743	1,078	12,482	183	13,743
Other financial liabilities	7,848	1,503	5,135	1,211	7,849
Total financial liabilities	391,380 (c)	27,726	240,277	125,191	393,194
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	337	-	-	337	337
In addition, liabilities in respect of employee benefits, gross - pension and severance pay (d)	17,465	-	172	17,293	17,465

- (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 137,289 million and NIS 148,636 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.
- (e) 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
Loans to the public, net	261,913	2,522	73,382	184,726	260,630
Loans to governments	642	-	27	642	669
Derivative assets	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 from 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
Derivative liabilities	10,677	728	9,542	407	10,677
Other financial liabilities	8,446	1,746	5,294	1,407	8,447
Total financial liabilities	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 benefits, 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

	At 30 June 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	34,869	2,024	-	36,893
Foreign government bonds	3,454	5,194	-	8,648
Bonds of Israeli financial institutions	-	24	-	24
Bonds of overseas financial institutions	43	8,614	-	8,657
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	6,651	1,454	8,105
Other bonds in Israel	54	228	-	282
Other bonds abroad	-	2,429	-	2,429
Shares and mutual funds available for sale	1,765	-	-	1,765
Total securities available for sale	40,185	25,164	1,454	66,803
Securities held for trading:				
State of Israel bonds	7,050	43	-	7,093
Foreign government bonds	347	412	-	759
Bonds of financial institutions in Israel	254	-	-	254
Bonds of financial institutions abroad	-	435	-	435
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	275	-	275
Other bonds in Israel	194	-	-	194
Other bonds abroad	-	429	-	429
Total securities held for trading	8,368	1,594	-	9,962
Derivative assets:				
Shekel-index contracts	-	134	205	339
Interest contracts	28	5,026	205	5,259
Foreign currency contracts	2	3,314	975	4,291
Share contracts	456	522	103	1,081
Commodities and other contracts	6	6	8	20
Activity in Maof market	371	-	-	371
Total Derivative assets:	863	9,002	1,496	11,361
Others:				
Credit and deposits in respect of lending of securities	2,390	5	-	2,395
Securities borrowed or purchased under agreements to resell	1,031	-	-	1,031
Other	733	-	-	733
Total others	4,154	5	-	4,159
Total assets	53,570	35,765	2,950	92,285

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

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

At 30 June 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				
Derivative liabilities:				
Shekel-index contracts	-	207	218	425
Interest contracts	29	4,872	-	4,901
Foreign currency contracts	2	5,021	254	5,277
Share contracts	456	672	-	1,128
Commodities and other contracts	5	14	-	19
Activity in Maof market	328	-	-	328
Total Derivative liabilities	820	10,786	472	12,078
Others:				
Deposits in respect of lending of securites	3,043	6	50	3,099
Securities lent or sold under agreements to repurchase	244	-	-	244
Others	1,473	-	-	1,473
Total others	4,760	6	50	4,816
Total liabilities	5,580	10,792	522	16,894

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

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

	At 30 June 2016 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS millions			
Assets				
Securities available for sale:				
Israeli government bonds	40,530	2,093	-	42,623
Foreign government bonds	8,306	425	-	8,731
Bonds of Israeli financial institutions	-	36	-	36
Bonds of overseas financial institutions	48	7,560	-	7,608
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,672 (a)	1,776 (a)	10,448
Other bonds in Israel	85	455	-	540
Other bonds abroad	-	1,862	-	1,862
Shares and mutual funds available for sale	1,043	-	-	1,043
Total securities available for sale	50,012	21,103	1,776	72,891
Securities held for trading:				
State of Israel bonds	6,244	124	-	6,368
Foreign government bonds	3,371	-	-	3,371
Bonds of financial institutions in Israel	130	-	-	130
Bonds of financial institutions abroad	-	227	-	227
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	461	-	461
Other bonds in Israel	108	-	-	108
Other bonds abroad	-	379	-	379
Shares and mutual funds held for trading	18	-	-	18
Total securities held for trading	9,871	1,191	-	11,062
Derivative assets:				
Shekel-index contracts	-	212	178	390
Interest contracts	172	7,180	403	7,755
Foreign currency contracts	1	2,261	900	3,162
Share contracts	575	561	192	1,328
Commodities and other contracts	10	20	13	43
Activity in Maof market	321	-	-	321
Total Derivative assets	1,079	10,234	1,686	12,999
Others:				
Credit and deposits in respect of lending of securities	2,679	2	-	2,681
Securities borrowed or purchased under agreements to resell	1,476	-	-	1,476
Other	783	-	-	783
Total others	4,938	2	-	4,940
Total assets	65,900	32,530	3,462	101,892

(a) Reclassified.

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

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

At 30 June 2016 (Unaudited)				
Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
NIS millions				
Liabilities				
Derivative liabilities:				
Shekel-index contracts	-	401	46	447
Interest contracts	173	7,570	-	7,743
Foreign currency contracts	1	3,740	136	3,877
Share contracts	575	739	1	1,315
Commodities and other contracts	11	32	-	43
Activity in Maof market	318	-	-	318
Total Derivative liabilities	1,078	12,482	183	13,743
Others:				
Deposits in respect of lending of securites	3,636	17	17	3,670
Securities lent or sold under agreements to repurchase	789	-	-	789
Others	1,503	-	-	1,503
Total others	5,928	17	17	5,962
Total liabilities	7,006	12,499	200	19,705

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

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

	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 Israel bonds	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
Derivative assets:				
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 Derivative assets	727	8,960	967	10,654
Others:				
Credit and deposits in respect of lending of securities	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)

	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				
Derivative liabilities:				
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 Derivative liabilities:	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

At 30 June 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	-	-	950	950	34
Bonds held to maturity	-	787	-	787	(12)
Total	-	787	950	1,737	22

At 30 June 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	-	-	817	817	202
Total	-	-	817	817	202

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 30 June 2017 (Unaudited)											
	Fair value at beginning of the period	In profit and loss statement (a)	In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 30 June 2017	Unrealized gains (losses) in respect of instruments held at 30 June 2017
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,409	(19)	(2)	222	(11)	(145)	-	-	-	1,454	-
Total bonds available for sale	1,409	(19)	(2)	222	(11)	(145)	-	-	-	1,454	-
Derivative assets:											
Shekel-index contracts	217	(13)	-	-	-	-	-	1	-	205	(31)
Interest contracts	129	31	-	-	-	45	-	-	-	205	80
Foreign currency contracts	1,125	(307)	-	157	-	-	-	-	-	975	437
Share contracts	101	2	-	-	-	-	-	-	-	103	17
Commodities and other contracts	3	5	-	-	-	-	-	-	-	8	6
Total derivative assets	1,575	(282)	-	157	-	45	-	1	-	1,496	509
Total assets	2,984	(301)	(2)	379	(11)	(100)	-	1	-	2,950	509
Liabilities:											
Derivative liabilities:											
Shekel-index contracts	162	13	-	-	-	-	-	52	(9)	218	48
Foreign currency contracts	263	(9)	-	-	-	-	-	-	-	254	(24)
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Total derivative liabilities	425	4	-	-	-	-	-	52	(9)	472	24
Total others	50	-	-	-	-	-	-	-	-	50	6
Total liabilities	475	4	-	-	-	-	-	52	(9)	522	30

- (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 30 June 2016 (Unaudited)											
		Realized and unrealized gains (losses), net, included					Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 30 June 2016	Unrealized gains (losses) in respect of instruments held at 30 June 2016
	Fair value at beginning of the period	In profit and loss statement (a)	In other comprehensive income (b)	Acqui- sitions and issues	Sales	Extinguish- ments					
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage- backed (MBS) bonds	1,938 (d)	42 (d)	1	77 (d)	(231) (d)	(51) (d)	-	-	-	1,776 (d)	4
Total bonds available for sale	1,938	42	1	77	(231)	(51)	-	-	-	1,776	4
Derivative assets:											
Shekel-index contracts	202	(14)	-	-	-	-	-	(10)	-	178	(64)
Interest contracts	312	109	-	-	-	(18)	-	-	-	403	103
Foreign currency contracts	903	(159)	-	156	-	-	-	-	-	900	267
Share contracts	134	58	-	-	-	-	-	-	-	192	119
Commodities and other contracts	23	(10)	-	-	-	-	-	-	-	13	-
Total derivative assets:	1,574	(16)	-	156	-	(18)	-	(10)	-	1,686	425
Total assets	3,512	26	1	233	(231)	(69)	-	(10)	-	3,462	429
Liabilities											
Derivative liabilities:											
Shekel-index contracts	61	(15) (d)	-	-	-	-	-	-	-	46	(1)
Foreign currency contracts	181	(45)	-	-	-	-	-	-	-	136	(6)
Share contracts	-	1	-	-	-	-	-	-	-	1	1
Total derivative liabilities	242	(59)	-	-	-	-	-	-	-	183	(6)
Total others	17	-	-	-	-	-	-	-	-	17	-
Total liabilities	259	(59)	-	-	-	-	-	-	-	200	(6)

- (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 six months ended 30 June 2017 (Unaudited)											
	Realized and unrealized gains (losses), net, included						Adjustments from		Transfers		Unrealized
	Fair value at	In profit and	In other	Acqui-		Extinguish-	translation	to Level 3	Transfers	Fair value	gains (losses)
	beginning of the	loss	comprehensive	sitions	Sales	ments	of financial	from Level 3	from Level 3	at 30 June	in respect of
	period	statement (a)	income (b)	and issues			statements	(c)	(c)	2017	instruments
	NIS millions										held at 30 June
											2017
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,426	(90)	(8)	637	(11)	(500)	-	-	-	1,454	(1)
Total bonds available for sale	1,426	(90)	(8)	637	(11)	(500)	-	-	-	1,454	(1)
Derivative assets:											
Shekel-index contracts	202	(18)	-	-	-	-	-	21	-	205	6
Interest contracts	130	83	-	-	-	(8)	-	-	-	205	91
Foreign currency contracts	575	(525)	-	925	-	-	-	-	-	975	764
Share contracts	57	46	-	-	-	-	-	-	-	103	71
Commodities and other contracts	3	5	-	-	-	-	-	-	-	8	6
Total derivative assets	967	(409)	-	925	-	(8)	-	21	-	1,496	938
Total assets	2,393	(499)	(8)	1,562	(11)	(508)	-	21	-	2,950	937
Liabilities:											
Derivative liabilities:											
Shekel-index contracts	162	34	-	-	-	-	-	52	(30)	218	54
Foreign currency contracts	245	9	-	-	-	-	-	-	-	254	31
Total derivative liabilities	407	43	-	-	-	-	-	52	(30)	472	85
Total others	34	16	-	-	-	-	-	-	-	50	24
Total liabilities	441	59	-	-	-	-	-	52	(30)	522	109

- (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 six months ended 30 June 2016 (Unaudited)												
	Realized and unrealized gains (losses), net, included						Adjustments from translation of financial statements			Transfers to Level 3 from Level 3		Fair value at 30 June 2016	Unrealized gains (losses) in respect of instruments held at 30 June 2016
	Fair value at beginning of the period	In profit and loss statement (a)	In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 30 June 2016			
	NIS millions												
Assets													
Securities available for sale:													
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(8)(d)	(3)	77(d)	(231) (d)	(62)(d)	-	-	-	1,776(d)	-		
Total bonds available for sale	2,003	(8)	(3)	77	(231)	(62)	-	-	-	1,776	-		
Derivative assets:													
Shekel-index contracts	174	(5)	-	-	-	-	-	9	-	178	(26)		
Interest contracts	297	167	-	-	-	(61)	-	-	-	403	103		
Foreign currency contracts	770	(257)	-	387	-	-	-	-	-	900	471		
Share contracts	129	63	-	-	-	-	-	-	-	192	131		
Commodities and other contracts	33	(20)	-	-	-	-	-	-	-	13	-		
Total derivative assets:	1,403	(52)	-	387	-	(61)	-	9	-	1,686	679		
Total assets	3,406	(60)	(3)	464	(231)	(123)	-	9	-	3,462	679		
Liabilities													
Derivative liabilities:													
Shekel-index contracts	53	(19)	-	-	-	-	-	12	-	46	15		
Foreign currency contracts	199	(63)	-	-	-	-	-	-	-	136	(50)		
Share contracts	-	1	-	-	-	-	-	-	-	1	1		
Total derivative liabilities	252	(81)	-	-	-	-	-	12	-	183	(34)		
Total others	13	4	-	-	-	-	-	-	-	17	17		
Total liabilities	265	(77)	-	-	-	-	-	12	-	200	(17)		

- (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)										Unrealized gains (losses) in respect of instruments held at 31 December 2016
	Fair value at beginning of the period	Realized and unrealized gains (losses), net, included					Adjustments from translation of financial statements	Transfers to Level 3 (c)	Transfers from Level 3 (c)	Fair value at 31 December 2016	
		In profit and loss statement (a)	In other comprehensive income (b)	Acqui-sitions and issues	Sales	Extinguish-ments					
	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
Derivative assets:											
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 derivative assets	1,403	(856)	-	572	-	(163)	-	35	(24)	967	208
Total assets	3,406	(917)	10	702	(378)	(441)	-	35	(24)	2,393	222
Liabilities:											
Derivative liabilities:											
Shekel-index contracts	53	110	-	-	-	-	-	37	(38)	162	159
Foreign currency contracts	199	46	-	-	-	-	-	-	-	245	56
Total derivative liabilities	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

	30 June 2017 (Unaudited)				
	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
NIS million					
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)	1,454	Discounting cash flows	Spread	125-190 bp	157 bp
			Probability of default	2.5%-3.8%	3.15%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Derivative assets⁽²⁾					
Shekel-index interest contracts	166	Discounting cash flows	Inflationary expectations	(0.15)%-0.43%	0.14%
	39	Discounting cash flows	Transaction counterparty risk	0.15%-100% (*)	1.92%
Interest contracts	205	Discounting cash flows	Transaction counterparty risk	0.15%-100% (*)	1.92%
Foreign currency contracts	148	Discounting cash flows	Inflationary expectations	(0.15)%-0.43%	0.14%
	827	Discounting cash flows	Transaction counterparty risk	0.15%-100% (*)	1.92%
Share contracts	103	Discounting cash flows	Transaction counterparty risk	0.15%-100% (*)	1.92%
Commodities contracts	8	Discounting cash flows	Transaction counterparty risk	0.15%-100% (*)	1.92%
Liabilities					
Derivative liabilities⁽²⁾					
Shekel/index interest contracts	218	Discounting cash flows	Inflationary expectations	(0.15)%-0.43%	0.14%
Foreign currency contracts	254	Discounting cash flows	Inflationary expectations	(0.15)%-0.43%	0.14%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	950	Fair value of collateral			

* In respect of a failed counterparty.

Qualitative information regarding Level 3 fair value measurement

- 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.
- 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).
- 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 (cont'd)

30 June 2016 (Unaudited)					
	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
NIS million					
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)	1,776 (a)	Discounting cash flows	Spread	70-160 bp	115 bp
			Probability of default	2.5%-6%	4.25%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Derivative assets⁽²⁾					
Shekel-index interest contracts	110	Discounting cash flows	Inflationary expectations	0.2%-0.3%	0.25%
	68	Discounting cash flows	Transaction counterparty risk	0.47%-100% (*)	2.11%
Interest contracts	403	Discounting cash flows	Transaction counterparty risk	0.47%-100% (*)	2.11%
Foreign currency contracts	85	Discounting cash flows	Inflationary expectations	0.2%-0.3%	0.25%
	815	Discounting cash flows	Transaction counterparty risk	0.47%-100% (*)	2.11%
Share contracts	192	Discounting cash flows	Transaction counterparty risk	0.47%-100% (*)	2.11%
Commodities contracts	13	Discounting cash flows	Transaction counterparty risk	0.47%-100% (*)	2.11%
Liabilities					
Derivative liabilities⁽²⁾					
Shekel/index interest contracts	46	Discounting cash flows	Inflationary expectations	0.2%-0.3%	0.25%
Foreign currency contracts	136	Discounting cash flows	Inflationary expectations	0.2%-0.3%	0.25%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	817	Fair value of collateral			

(a) Reclassified.

* In respect of a failed counterparty.

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 (cont'd)

31 December 2016 (Audited)					
	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
NIS million					
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)	1,426	Discounting cash flows	Spread	125-190 bp	157 bp
			Probability of default	2.5%-3.8%	3.15%
			Rate of early repayment	20%	20%
			Loss Rate	30%	30%
Derivative assets⁽²⁾					
Shekel-index interest contracts	162	Discounting cash flows	Inflationary expectations	0%-0.33%	0.17%
	40	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Interest contracts	130	Discounting cash flows	Transaction counterparty risk	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 risk	0.2%-100% (*)	2.67%
Share contracts	57	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Commodities contracts	3	Discounting cash flows	Transaction counterparty risk	0.2%-100% (*)	2.67%
Liabilities					
Derivative liabilities⁽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 basis					
Collateral-contingent impaired debt	968	Fair value of collateral			

* In respect of a failed counterparty.

Qualitative information regarding fair value measurement in Level 3

- 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.
- 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).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 16 – Miscellaneous matters

Leumi Partners

On 7 May 2017, the subsidiary company Leumi Partners (hereinafter: "Leumi Partners") entered into an agreement in a non-binding Memorandum of Understanding¹ (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 about 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.

Transaction for sale of property

On 18 June 2017, the Board of Directors of the Bank approved entering into an agreement with Canada Acro b'City Limited Partnership for the sale of a property on the corner of Yehuda Halevi Street and Herzl Street in Tel Aviv, currently used as the Bank's Principal Branch Tel Aviv. The sale proceeds total NIS 277 million and the expected gain on completion of the transaction is NIS 260 million, before tax.

PEPPER

In June 2017, Leumi publicly launched PEPPER, a mobile-only digital banking platform. This follows the launch in the first quarter, of PEPPER PAY, a payment solution for customers of all banks.

This is a quantum leap in the groundwork of digital banking in Israel which will be conducted via mobile. The new apps provide a personal, simple and convenient "any-time, any-place" customer experience, tailored to customer needs, in a friendly manner, with a unique design, and no current account charges.

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

Bank Leumi in Israel Ltd. and its Investee Companies
Corporate Governance, Additional Details and Appendices

Table of contents	Page
A. Corporate Governance	
Changes in the Board of Directors	219
Internal Auditor	219
B. Additional details	
Control of the Bank	219
Appointments and Retirements and Organizational Structure	220
Legislation and Regulation relating to the Banking System	220
Credit rating	223
C. Appendices	
Rates of income and expense	224

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 first quarter of 2017, see chapter "Changes in the Board of Directors" in the financial statements for 2016.

On 29 March 2017, The Committee for the appointment of Directors in banking corporations, appointed in accordance of article 36A to the Banking (Licensing) Law, 1981, informed the Bank of the list of candidates on its behalf to be appointed as Directors in The Bank's general meeting for 2017, following a preliminary announcement regarding the Bank's notice to convene a general meeting published on 15 March 2017 (See immediate report from 15 March 2017 (Ref: 2017-01-024366). This aforementioned list includes, *inter alia*, Dr. Samer Haj Yehia, (director in a status of "other director") and Prof. Haim Levy (external director, in accordance with the Proper Conduct of Banking Business No. 301 of the Banking Supervision Department), that are to about to finish their first tenure as Directors in the Bank on 29 September 2017 and on 31 October 2017, respectively. Likewise, on 17 August 2018 Ms. Zippi Samet (external director at the Bank) and David Avner (director with the status of "other director") are soon to end their second tenure at the Bank.

On 5 July 2017, the Bank of Israel published revisions to Proper Conduct of Banking Management Regulation No. 301 ("the revised Regulation No. 301"), intended to improve the effectiveness of the work of the Board of Directors and increase the Board's professional qualifications. Pursuant to the revised Regulation No. 301, changes were incorporated with the aim of enabling the Board of Directors to put into its work an emphasis on the matters which were most important to the Bank, *inter alia*, by allowing the possibility of delegating some of the decisions to the Board's committees. Other major changes which were incorporated in the revised Regulation No. 301 include reducing the maximum number of directors to 10, instead of 15 as it is today, by 1 July 2020, with a directive of the Supervisor of Banks already in 2017 obligating the banks to reduce the number of the members of their board of directors to 13, the expansion of the definition of "having banking experience" and the raising of the percentage of the directors required to "having banking experience", a requirement to incorporate at least one director who has proven experience in the areas of technology; in addition, the revised Regulation 301 also incorporated Basel principles for corporate governance which were published in July 2015.

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, and th the Auditor's Annual Report, 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 Amendment to Immediate Report on the Position of Holdings of Interested Parties and Senior Office Holders, dated 10 July 2017 (Ref no. 2017-01-072006). 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 No. 301 or one external director 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 No. 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 an 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).

Appointments and retirements

Appointments

Mr. Shai Basson will be appointed to the position of Head of Leumi Technologies Division and member of Bank management with the rank of First Executive Vice President of Senior Deputy Vice-President, with effect from 1 September 2017.

Mr. Ilan Boganim, who serves as Acting Head of the Leumi Technologies Division, will be appointed Head of CTO, CDO and Infrastructure Department and member of Bank management, and will report to the Head of Leumi Technologies Division, with effect from 1 September 2017.

Organizational structure

Compliance and Enforcement Department

The Compliance Department is subject to the Legal Counsel Division. In light of the organizational changes and appointments made in the Bank during the report period, until the end of 2017 only, the Compliance Department continues to be subject to Mr. Hanan Friedman, who served as the Bank's Chief Legal Counsel and currently serves as Head of the Strategy and Regulation Division.

Legislation and Regulation relating to the Banking System

Some of the information in this chapter is "forward-looking information". For the meaning of this term and the consequences arising from this meaning, see the chapter, "Forward-Looking Information".

See a detailed description in the Financial Statements for 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 be appointed by an 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.

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 13 June 2017, expands the aforesaid letter of the Bank of Israel.

As part of the expansion, it is clarified that the Banking Supervision Department encourages the banking corporations, in addition to the streamlining of personnel expenses, also to examine possibilities of reducing costs of real estate and maintenance of head office 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 letter regarding efficiency encouragement of January 2016 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 (a) to examine and execute a streamlining program in the field of real estate and (b) to expand the streamlining program in the area of personnel.

Draft amendment to Proper Conduct of Banking Management Regulation No. 315 "Additional Provision for doubtful debts"

On 6 June 2017, the Banking Supervision Department published the abovementioned draft. According to the amendment, the Bank will be required to comply with the sectoral debt restriction, such that the debt to a particular sector must not exceed 20% of the total debts to the public to the banking corporation.

With regard to the "Real estate construction and industry and trade of building products" sector, the draft provides that, under certain conditions, the banking corporation is entitled to set the percentage restriction at 22%. At the same time, the requirement to make an additional provision and a general provision in the case of exceeding the limits prescribed in the directive was canceled, in view of the lack of effectiveness of these provisions and as a part of the desire to ease and simplify the regulations. Instead of the aforementioned provision, a banking corporation in which a deviation has occurred from the limits specified in the directive must notify the Banking Supervision Department without delay, together with a plan to cancel the deviation as soon as possible.

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

In the recent period, a special emphasis has been 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 new 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 connection to payment and clearing systems.

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

- 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 for updates 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.

Parliamentary Inquiry Committee on the Conduct of the Financial System in Credit Arrangement for Large Borrowers

On 5 July 2017, the Knesset plenum approved the Knesset Committee's proposal to setup a Parliamentary Inquiry Committee headed by the Chairman of the Economic Affairs Committee, Knesset member Eitan Cabel, which will discuss the conduct of banks, institutional bodies and regulators regarding the allocation of loans to large business borrowers from 2003 onwards. The Inquiry Committee will submit to the Knesset, at the end of its deliberations, a report detailing its actions and conclusions.

Draft Supervision of Financial Services (Provident Funds) Regulations (Purchase and Sale of Securities) (Amendment)- 2017

On 24 July 2017, the Knesset Finance Committee approved the amendment to Supervision of Financial Services (Provident Funds) Regulations (Purchase and Sale of Securities), 2009. Further to what is stated in the Annual Report regarding the aforementioned regulations, the approved version did not include the restriction included in the draft regulations regarding the maximum rate of purchase or sales commission to be paid to a corporation that has an agreement with one of the members of a group of investors for the provision of management or operating services.

Proposed Fair Credit Law (Amendment no. 3 to the Regulation of Non-Bank Loans Law- 5753-1993)

The proposed law passed its second and third readings on 25 July 2017.

The proposal seeks to compare the norms that apply to non-institutional lenders with those that apply to institutional lenders (insurers, banks, ancillary corporations, clearers, etc).

The proposed law applies to individual borrowers. However, the Minister of Justice, with the agreement of the Minister of Finance, the Governor and the approval of the Constitution Committee, may extend the application of the law or some of its clauses to types of corporations as well.

The proposed law includes, *inter alia*, provisions on the following topics:

- Obligations of disclosure to the borrower.
- Restrictions regarding the maximum cost of the loans.
- Principles regarding advancing the date of loan repayment
- Sanctions- in case of non-compliance with the law.

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.

On 21 June 2017, Fitch credit rating agency affirmed the Bank's rating and the rating outlook.

On 9 August 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 30 June					
	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	235,858	2,405	4.14	240,257	2,221	3.75
Outside Israel	23,286	235	4.10	22,388	235	4.27
Total (i)	259,144	2,640	4.14	262,645	2,456	3.79
Credit to the Government						
In Israel	617	7	4.62	437	4	3.71
Outside Israel	-	-	-	-	-	-
Total	617	7	4.62	437	4	3.71
Deposits in banks						
In Israel	3,341	20	2.42	6,556	20	1.23
Outside Israel	508	5	4.00	641	4	2.52
Total	3,849	25	2.62	7,197	24	1.34
Deposits in central banks						
In Israel	45,611	11	0.10	33,491	8	0.10
Outside Israel	4,769	1	0.08	5,505	1	0.07
Total	50,380	12	0.10	38,996	9	0.09
Securities borrowed or purchased under resale agreements						
In Israel	1,010	1	0.40	1,564	-	-
Outside Israel	-	-	-	-	-	-
Total	1,010	1	0.40	1,564	-	-
Bonds available for sale (d)						
In Israel	62,213	148	0.95	62,579	171	1.10
Outside Israel	5,095	33	2.62	4,961	22	1.79
Total	67,308	181	1.08	67,540	193	1.15
Bonds for trading (d)						
In Israel	8,992	18	0.80	9,887	17	0.69
Outside Israel	186	3	6.61	61	1	6.72
Total	9,178	21	0.92	9,948	18	0.73
Total interest-bearing assets	391,486	2,887	2.98	388,327	2,704	2.81
Receivables for non-interest-bearing credit cards	6,623			6,479		
Other non-interest-bearing assets (e)	36,622			39,442		
Total assets	434,731	2,887	-	434,248	2,704	-
Total income-bearing assets attributable to activity outside Israel	33,844	277	3.31	33,556	263	3.17

See notes on page 229.

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

	For the three months ended 30 June					
	2017			2016		
	Average balance (b) NIS millions	Interest expense	Rate of expense %	Average balance (b) NIS millions	Interest expense	Rate of expense %
Interest-bearing liabilities						
Deposits from the public						
In Israel	238,685	(396)	(0.67)	243,110	(356)	(0.58)
On demand	101,069	(8)	(0.03)	89,569	(3)	(0.01)
Fixed term	137,616	(388)	(1.13)	153,541	(353)	(0.92)
Outside Israel	15,459	(33)	(0.86)	15,918	(32)	(0.80)
On demand	4,369	(5)	(0.46)	3,410	(2)	(0.23)
Fixed term	11,090	(28)	(1.01)	12,508	(30)	(0.96)
Total	254,144	(429)	(0.68)	259,028	(388)	(0.60)
Deposits of the Government						
In Israel	159	(1)	(2.54)	167	(1)	(2.37)
Outside Israel	592	-	-	652	-	-
Total	751	(1)	(0.53)	819	(1)	(0.49)
Deposits from central banks						
In Israel	63	-	-	-	-	-
Outside Israel	-	-	-	-	-	-
Total	63	-	-	-	-	-
Deposits from banks						
In Israel	4,165	(5)	(0.48)	4,143	(3)	(0.29)
Outside Israel	26	-	-	13	-	-
Total	4,191	(5)	(0.48)	4,156	(3)	(0.29)
Securities lent or sold under resale agreements						
In Israel	371	(1)	(1.08)	939	-	-
Outside Israel	-	-	-	-	-	-
Total	371	(1)	(1.08)	939	-	-
Bonds						
In Israel	22,713	(286)	(5.13)	24,757	(278)	(4.42)
Outside Israel	-	-	-	-	-	-
Total	22,713	(286)	(5.13)	24,757	(278)	(4.42)
Total interest-bearing liabilities	282,233	(722)	(1.03)	289,699	(670)	(0.92)
Non-interest-bearing deposits of the public	86,641			79,041		
Payables for non-interest-bearing	6,282			6,026		
Other non-interest-bearing liabilities ^(f)	27,154			29,808		
Total liabilities	402,310	(722)		404,574	(670)	
Total capital means	32,421			29,674		
Total liabilities and capital means	434,731	(722)		434,248	(670)	
Interest margin		2,165	1.96		2,034	1.89
Net yield (g) on income-bearing assets						
In Israel	357,642	1,921	2.17	354,771	1,803	2.05
Outside Israel	33,844	244	2.92	33,556	231	2.78
Total	391,486	2,165	2.23	388,327	2,034	2.11
Total income-bearing liabilities attributable to activity outside Israel	16,077	(33)	(0.82)	16,583	(32)	(0.77)

See notes on page 229.

Part A – Average balances and interest rates – assets

	For the six months ended 30 June					
	2017			2016		
	Average balance (b) NIS millions	Interest income	Rate of income %	Average balance (b) NIS millions	Interest income	Rate of income %
<u>Income-bearing assets</u>						
Credit to the public (c)						
In Israel	235,371	4,281	3.67	239,360	3,731	3.14
Outside Israel	23,579	463	3.97	23,050	464	4.07
Total (i)	258,950	4,744	3.70	262,410	4,195	3.22
Credit to the Government						
In Israel	621	12	3.90	430	7	3.28
Outside Israel	-	-	-	-	-	-
Total	621	12	3.90	430	7	3.28
Deposits in banks						
In Israel	4,063	42	2.08	8,356	31	0.74
Outside Israel	586	12	4.14	682	8	2.36
Total	4,649	54	2.34	9,038	39	0.86
Deposits in central banks						
In Israel	45,443	23	0.10	32,464	17	0.10
Outside Israel	5,483	2	0.07	5,238	2	0.08
Total	50,926	25	0.10	37,702	19	0.10
Securities borrowed or purchased under resale agreements						
In Israel	1,055	1	0.19	1,610	1	0.12
Outside Israel	-	-	-	-	-	-
Total	1,055	1	0.19	1,610	1	0.12
Bonds available for sale (d)						
In Israel	62,171	270	0.87	57,822	278	0.96
Outside Israel	5,615	68	2.44	4,874	45	1.86
Total	67,786	338	1.00	62,696	323	1.03
Bonds for trading (d)						
In Israel	9,144	25	0.55	10,095	41	0.81
Outside Israel	163	7	8.77	83	4	9.87
Total	9,307	32	0.69	10,178	45	0.89
Total interest-bearing assets	393,294	5,206	2.66	384,064	4,629	2.43
Receivables for non-interest-bearing credit cards	6,269			5,912		
Other non-interest-bearing assets (e)	34,834			38,590		
Total assets	434,397	5,206	-	428,566	4,629	-
Total income-bearing assets attributable to activity outside Israel	35,426	552	3.14	33,927	523	3.11

See notes on page 229.

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

	For the six months ended 30 June					
	2017			2016		
	Average balance (b) NIS millions	Interest expense	Rate of expense %	Average balance (b) NIS millions	Interest expense	Rate of expense %
<u>Interest-bearing liabilities</u>						
Deposits from the public						
In Israel	238,506	(642)	(0.54)	240,778	(502)	(0.42)
On demand	99,060	(15)	(0.03)	89,855	(7)	(0.02)
Fixed term	139,446	(627)	(0.90)	150,923	(495)	(0.65)
Outside Israel	16,260	(65)	(0.80)	16,237	(62)	(0.76)
On demand	4,677	(10)	(0.43)	3,545	(4)	(0.23)
Fixed term	11,583	(55)	(0.95)	12,692	(58)	(0.91)
Total	254,766	(707)	(0.56)	257,015	(564)	(0.44)
Deposits of the Government						
In Israel	169	(2)	(2.38)	157	(2)	(2.53)
Outside Israel	657	-	-	628	-	-
Total	826	(2)	(0.48)	785	(2)	(0.51)
Deposits from central banks						
In Israel	39	-	-	-	-	-
Outside Israel	-	-	-	-	-	-
Total	39	-	-	-	-	-
Deposits from banks						
In Israel	4,270	(9)	(0.42)	4,350	(5)	(0.23)
Outside Israel	14	-	-	15	-	-
Total	4,284	(9)	(0.42)	4,365	(5)	(0.23)
Securities lent or sold under resale agreements						
In Israel	376	(1)	(0.53)	945	(1)	(0.21)
Outside Israel	-	-	-	-	-	-
Total	376	(1)	(0.53)	945	(1)	(0.21)
Bonds						
In Israel	22,680	(449)	(4.00)	24,535	(368)	(2.98)
Outside Israel	-	-	-	-	-	-
Total	22,680	(449)	(4.00)	24,535	(368)	(2.98)
Total interest-bearing liabilities	282,971	(1,168)	(0.83)	287,645	(940)	(0.65)
Non-interest-bearing deposits of the public	86,260	-	-	77,581	-	-
Payables for non-interest-bearing credit cards	6,149	-	-	5,979	-	-
Other non-interest-bearing liabilities ^(f)	27,299	-	-	28,258	-	-
Total liabilities	402,679	(1,168)	-	399,463	(940)	-
Total capital means	31,718	-	-	29,103	-	-
Total liabilities and capital means	434,397	(1,168)	-	428,566	(940)	-
Interest margin	-	4,038	1.84	-	3,689	1.77
<u>Net yield (g) on income-bearing assets</u>						
In Israel	357,868	3,551	1.99	350,137	3,228	1.85
Outside Israel	35,426	487	2.77	33,927	461	2.74
Total	393,294	4,038	2.06	384,064	3,689	1.93
Total income-bearing liabilities attributable to activity outside Israel	16,931	(65)	(0.77)	16,880	(62)	(0.73)

See notes on page 229.

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

	For the three months ended 30 June					
	2017			2016		
	Average	Interest	Rate of	Average	Interest	Rate of
	balance (b)	income	income	balance (b)	income	income
	NIS millions	(expense)	(expense)	NIS millions	(expense)	(expense)
Index-linked Israeli currency						
Total interest-bearing assets	47,540	795	6.86	50,603	654	5.27
Total interest-bearing liabilities	35,928	(448)	(5.08)	43,268	(399)	(3.74)
Interest margin			1.78			1.53
Unlinked Israeli currency						
Total interest-bearing assets	264,650	1,581	2.41	253,727	1,542	2.45
Total interest-bearing liabilities	192,600	(150)	(0.31)	187,092	(158)	(0.34)
Interest margin			2.10			2.11
Foreign currency						
Total interest-bearing assets	45,452	234	2.08	50,441	245	1.96
Total interest-bearing liabilities	37,628	(91)	(0.97)	42,756	(81)	(0.76)
Interest margin			1.11			1.20
Total activity in Israel						
Total interest-bearing assets	357,642	2,610	2.95	354,771	2,441	2.78
Total interest-bearing liabilities	266,156	(689)	(1.04)	273,116	(638)	(0.94)
Interest margin			1.91			1.84

	For the six months ended 30 June					
	2017			2016		
	Average	Interest	Rate of	Average	Interest	Rate of
	balance (b)	income	income	balance (b)	income	income
	NIS millions	(expense)	(expense)	NIS millions	(expense)	(expense)
Index-linked Israeli currency						
Total interest-bearing assets	48,025	1,082	4.56	51,106	627	2.47
Total interest-bearing liabilities	36,302	(635)	(3.53)	43,021	(419)	(1.96)
Interest margin			1.03			0.51
Unlinked Israeli currency						
Total interest-bearing assets	262,655	3,114	2.39	248,678	2,999	2.43
Total interest-bearing liabilities	191,088	(298)	(0.31)	185,755	(305)	(0.33)
Interest margin			2.08			2.10
Foreign currency						
Total interest-bearing assets	47,188	458	1.95	50,353	480	1.92
Total interest-bearing liabilities	38,650	(170)	(0.88)	41,989	(154)	(0.73)
Interest margin			1.07			1.19
Total activity in Israel						
Total interest-bearing assets	357,868	4,654	2.62	350,137	4,106	2.36
Total interest-bearing liabilities	266,040	(1,103)	(0.83)	270,765	(878)	(0.65)
Interest margin			1.79			1.71

See notes on page 229.

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 with 2016			2017 compared with 2016		
	For the three months ended 30 June			For the six months ended 30 June		
	Increase (decrease) due to			Increase (decrease) due to		
	change (h)			change (h)		
	Amount	Price	Net change	Amount	Price	Net change
	NIS millions					
Interest-bearing assets						
Credit to the public						
In Israel	(45)	229	184	(73)	623	550
Outside Israel	9	(9)	-	10	(11)	(1)
Total	(36)	220	184	(63)	612	549
Other interest-bearing assets						
In Israel	12	(27)	(15)	36	(38)	(2)
Outside Israel	(2)	16	14	7	23	30
Total	10	(11)	(1)	43	(15)	28
Total interest income	(26)	209	183	(20)	597	577
Interest-bearing liabilities						
Deposits from the public						
In Israel	(7)	47	40	(6)	146	140
Outside Israel	(1)	2	1	-	3	3
Total	(8)	49	41	(6)	149	143
Other interest-bearing liabilities						
In Israel	(27)	38	11	(41)	126	85
Total	(27)	38	11	(41)	126	85
Total interest expenses	(35)	87	52	(47)	275	228

Notes:

- The data in these tables are shown after the effect of hedging derivative instruments.
- 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.
- Before deduction of the average balance of credit loss allowances. Including impaired debts not accumulating interest income.
- 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 110 million (30 June 2016 – NIS 518 million).
- Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.
- Including book balances of derivative instruments, and non-monetary liabilities.
- Net yield – net interest income divided by total interest-bearing assets.
- 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.
- Commissions for the three-month and six-month period in an amount of NIS 102 and NIS 218 million, respectively have been included in interest income from credit to the public (30 June 2016 – NIS 108 million and NIS 232 million, respectively).