BANK LEUMI OF ISRAEL LTD. AND ITS INVESTEE COMPANIES

Condensed Financial Statements
September 30, 2017
(unaudited)

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

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

Summary of Financial Position

Below is the consolidated statement of profit and loss:

	Three months ended September 30		**Nine months ended September 30**		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Interest income	**2,294**	2,607	**7,500**	7,236	9,552
Interest expenses	**376**	637	**1,544**	1,577	2,026
Net interest income	**1,918**	1,970	**5,956**	5,659	7,526
Provision for credit losses	**3**	106	**146**	(171)	(125)
Net interest income after provision for credit losses	**1,915**	1,864	**5,810**	5,830	7,651
Noninterest income					
Noninterest financing income	**222**	499	**674**	1,057	1,282
Commissions	**1,043**	996	**3,068**	2,973	3,967
Other income	**41**	19	**71**	54	159
Total noninterest income	**1,306**	1,514	**3,813**	4,084	5,408
Operating and other expenses					
Salaries and related expenses	**1,264**	1,354	**3,831**	4,142	5,422
Building and equipment maintenance and depreciation	**406**	435	**1,239**	1,254	1,697
Other expenses	**406**	166	**1,076**	904	1,461
Total operating and other expenses	**2,076**	1,955	**6,146**	6,300	8,580
Profit before tax	**1,145**	1,423	**3,477**	3,614	4,479
Tax expense	**376**	514	**1,220**	1,292	1,717
Profit after tax	**769**	909	**2,257**	2,322	2,762
Bank's share in profits of associate companies after tax	**60**	21	**85**	56	66
Net income					
Before attributing to non-controlling interests	**829**	930	**2,342**	2,378	2,828
Due to non-controlling interests	**(9)**	(11)	**(24)**	(30)	(37)
Due to the Bank's shareholders	**820**	919	**2,318**	2,348	2,791
Basic and diluted earnings per share due to the Bank's shareholders (in NIS):					
Basic net income	**0.52**	0.60	**1.50**	1.55	1.85
Diluted net income	**0.52**	0.60	**1.50**	1.55	1.84

Total assets under management of the Group (both balance sheet and off-balance sheet*) were NIS 1,374 billion at September 30, 2017, compared with NIS 1,262 billion at the end of 2016, an increase of 8.9%.

* 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:

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Assets			
Cash and deposits with banks	**66,134**	59,067	74,757
Securities	**82,098**	82,493	77,201
Securities borrowed or purchased under agreements to resell	**872**	896	1,284
Loans to the public	**269,630**	267,895	265,450
Credit loss allowance	**(3,272)**	(3,527)	(3,493)
Loans to the public, net	**266,358**	264,368	261,957
Loans to governments	**695**	623	642
Investments in associate companies	**923**	897	901
Buildings and equipment	**2,931**	3,044	3,147
Intangible assets and goodwill	**16**	17	17
Derivative assets	**10,954**	11,630	10,654
Other assets	**8,251**	8,723	8,043
Total assets	**439,232**	431,758	438,603
Liabilities and equity			
Deposits from the public	**350,201**	336,851	346,854
Deposits from banks	**4,460**	3,589	3,394
Deposits from governments	**539**	661	900
Securities lent or sold under repurchase agreements	**637**	553	539
Debentures, bonds and subordinated notes	**16,407**	23,765	22,640
Derivative liabilities	**11,275**	12,634	10,677
Other liabilities	**22,539**	22,117	21,885
Total liabilities	**406,058**	400,170	406,889
Non-controlling interests	**381**	360	367
Total equity due to the Bank's shareholders	**32,793**	31,228	31,347
Total equity	**33,174**	31,588	31,714
Total liabilities and equity	**439,232**	431,758	438,603

Below are the principal financial ratios (in %):

	September 30		December 31
	2017	2016	2016
Loans to the public, net, to total balance sheet	**60.6**	61.2	59.7
Securities to total balance sheet	**18.7**	19.1	17.6
Deposits from the public to total balance sheet	**79.7**	78.0	79.1
Deposits from the public to total credit, net	**131.5**	127.4	132.4
Total capital to risk-weighted assets[a]	**15.08**	15.04	15.21
Common Equity Tier 1 capital to risk-weighted assets	**11.35**	10.86	11.15
Leverage ratio	**7.03**	6.81	6.77
Liquidity coverage ratio	**122**	130	132
Total equity due to the Bank's shareholders (excluding non-controlling interests) to balance sheet	**7.5**	7.2	7.1
Net income to average capital (excluding non-controlling interests)[c]	**9.7**	10.7	9.3
Rate of tax provision on income before taxes	**35.1**	35.7	38.3
Provision for credit losses to loans to the public, net[c]	**0.07**	(0.09)	(0.05)
Of which: expenses in respect of collective allowance to loans to the public, net[c]	**0.17**	0.24	0.24
Provision for credit losses to total risk of loans to the public[c]	**0.05**	(0.06)	(0.03)
Interest income, net to total balance sheet[c]	**1.81**	1.75	1.72
Total income to total assets[b][c]	**2.98**	3.02	2.95
Total income to total assets managed by the Group[b][c][d]	**0.95**	1.05	1.02
Total operating and other expenses to total balance sheet[c]	**1.87**	1.95	1.96
Total operating and other expenses to total assets managed by the Group[c][d]	**0.60**	0.68	0.68
Net income to total average assets[c][e]	**0.71**	0.73	0.64
Interest spread	**1.83**	1.76	1.75
Operating and other expenses to total income[b]	**62.9**	64.7	66.3
Noninterest income to operating and other expenses	**62.0**	64.8	63.0
Noninterest income to total income[b]	**39.0**	41.9	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 July 11, 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.

The total cost of the Plan is estimated by the Bank to be NIS 500 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 OCI 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 June 18, 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 in the fourth quarter of 2017 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 Economy[1]

In the first nine months of the year, the Israel economy grew at an annual rate of 3.3% in real terms, compared with the corresponding period last year. In the third quarter of the year, growth in the economy was 4.1%, in annual terms, compared with the second quarter. Most of the components of GDP expanded quickly in the third quarter, except for private consumption, which contracted.

The global economy

In October 2017, the International Monetary Fund (IMF) updated the forecast for global growth in 2017, according to which the global market is expect to expand in 2017 by 3.6% in real terms, an increase of 0.1%, compared with the to the forecast for July, and compared with 3.2% in 2016. The growth rate forecast in the United States in 2017 was also revised upward (from 2.1% to 2.2%). In the Euro Area, the growth forecast for 2017 was revised upward (from 1.9% to 2.1%) against a background of positive data as regards economic activity, which were published in late 2016 and during 2017.

The State Budget and its Financing

In the period January–September 2017, the Government's budget deficit was NIS 5.0 billion, compared with NIS 6.3 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. The accumulated deficit in the past 12 months ended September 2017 according to the Treasury estimates totaled 1.9% of GDP. This low rate in relation to the annual target derives from a considerable increase in income from taxes in the third quarter of the year, as a result of the sale of companies and as a result of a tax dividend campaign from large shareholders,

On April 18, 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 nine months of the year was $ 10.5 billion, an increase of $ 0.6 billion, compared with the deficit in the corresponding period last year. The increase in the trade deficit derives from a larger increase in imports, compared with exports.

In the period January-September 2017, direct investments in Israel by foreign residents, via the banking system, totaled $ 6.0 billion, while financial investments of foreign residents in Israel amounted to $ 5.5 billion. On the other hand, total investments of Israeli residents abroad (direct investments via the banks in Israel and financial investments) were $ 2.9 billion, such that total investments incoming to Israel were significantly higher than total outgoing investments in foreign currency.

Exchange Rate and Foreign Currency Reserves

In the first nine months of the year, the NIS appreciated against the Dollar by 8.2%, and against the Euro, it depreciated by 2.8%.

Foreign currency balances of the Bank of Israel at the end of September 2017 totaled $ 111.1 billion, compared with $ 98.4 billion at the end of 2016.

In the first nine months 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, were $ 1.24 billion. In total, the Bank of Israel purchased foreign currency totaling $ 6.24 billion during this period.

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

Inflation and Monetary Policy

The consumer price index ("published for the month") increased by 0.3% during the first nine months of the year, while in the past 12 months ended September 2017, the index rose by 0.1%. 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 0.2% from January to September 2017.

In the first nine months 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 October 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 decreased in the first nine months of the year by 5.6%, as a result of price falls of 6.1% in the third quarter, against a background of a similar trend around the world and following a fall in pharma shares.

Average daily trading volumes of shares and convertible securities increased in the period from January to September by 15.1%, compared with the average for 2016, and totaled NIS 1.46 billion.

The Government bond market was characterized, during the first nine months of the year, by price increases. The price of CPI-linked Government bonds rose by 1.9%, while unlinked Government bonds increased by 2.8% (the fixed interest bond index rose by 3.3% while the variable interest, *"Gilon"*, bond index recorded a slight increase of 0.5%).

In the CPI-linked non-government debenture index (corporate bonds), there were price increases of some 4.3% in the period from January to-September, following price increases of some 4.1% in 2016.

Financial assets held by the public

The value of the financial asset portfolio held by the public at the end of September 2017 was NIS 3,490 billion, an increase of 1.4% from the beginning of the year, with stability in the value of the third-quarter portfolio. The proportion of shares (in Israel and abroad) in the monetary assets portfolio of the Israeli public reached 21.2% at the end of September 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 nine months of 2017 (hereinafter - "the reported period") was NIS 2,318 million, compared with NIS 2,348 million in the corresponding period last year. It should be noted that net income last year was affected by a number of material non-recurring items totaling NIS 464 million, net of tax – income from the sale of Visa Europe, income from an insurance refund in respect of the arrangement with overseas authorities regarding U.S. customers, 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. Most of the non-recurring effects last year arose in the first half pf 2016, with the exception of the insurance refund which was received in the third quarter of 2016.

Return on capital in the reported period was 9.7%, compared with 10.7% for the first nine months of last year. The return on capital in the corresponding period last year, net of the non-recurring items as noted above, was 8.6%. The improvement in the return, net of the non-recurring items last year, derives from an increase in interest income, an increase in commissions and a decrease in expenses, mainly salary expenses.

Return on capital for the third quarter of the year was 10.3%, compared with 12.7% in the corresponding quarter last year. Return on capital for the corresponding quarter last year, net of the insurance refund in respect of the arrangement with overseas authorities regarding U.S. customers, was 9.4%.

The CET1 ratio to risk components was 11.35% at September 30, 2017, compared with 11.15% at December 31, 2016. For further details, see Note 9B.

On November 20, 2017, the Board of Directors of the Bank approved the change in the dividend distribution policy from a rate of 20% each quarter to a rate of up to 40% of the net profit of each quarter commencing from the net profit in respect of that quarter commencing the profits of the third quarter of 2017.

In accordance with the revised policy, in respect of the third quarter of 2017, the Board of Directors approved a dividend at a rate of 40% of the net profit of the quarter. The dividend approved amounted to NIS 328 million. The aggregate dividend in respect of the first nine months of the year was NIS 628 million.

Net interest income in the first nine months of the year increased by NIS 297 million, an increase of 5.2%, compared with the corresponding period last year. The increase in net interest income arises from an increase in the interest spreads and an increase in the average balance of interest-bearing (credit to the public and deposits in banks).

The provision for credit losses in the first nine months of the year reflects a rate of expense of 0.07% of loans to the public, net, compared with income of 0.09% in the corresponding period last year. The income in the corresponding period last year arose mainly from large collections.

The rate of expense in respect of credit losses in the third quarter of 2017 stood at 0.00%.

Noninterest financing income was NIS 674 million, compared with NIS 1,057 million in the corresponding period last year. The decrease mainly arises from the fact that the corresponding period last year includes income from the sale of Visa Europe totaling NIS 378 million.

Operating commissions in the first nine months of the year increased by NIS 95 million, mainly due to an increase in activity turnover in credit cards and securities.

Operating expenses in the first nine months of the year decreased by NIS 154 million, compared with the corresponding period last year, a decrease of 2.4%. In the corresponding period last year, income of NIS 235 million was recorded within the expenses for an insurance refund in respect of the arrangement with overseas authorities regarding the U.S, customers and an exceptional salary expense as detailed below. Excluding these items, expenses decreased by 5.3% compared with the corresponding period last year.

Salary expenses fell by NIS 311 million, a decrease of 7.5%. Excluding non-recurring salary expenses, salary expenses fell by 6.4%. Most of the decrease derived from a fall in the number of employees against a background of streamlining procedures.

Other operating expenses, net of the insurance refund as set forth above, decreased by 3.3%

The **tax expense** was NIS 1,220 million, compared with NIS 1,292 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 was NIS 1.50, compared with NIS 1.55 in the corresponding period last year.

Significant Developments in Income, Expenses and OCI

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

	Three months ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net interest income	**1,918**	1,970	(52)	(2.6)
Provision for credit losses	**3**	106	(103)	(97.2)
Noninterest income	**1,306**	1,514	(208)	(13.7)
Operating and other expenses	**2,076**	1,955	121	6.2
Profit before tax	**1,145**	1,423	(278)	(19.5)
Tax expense	**376**	514	(138)	(26.8)
Profit after tax	**769**	909	(140)	(15.4)
Bank's share in profits of associate companies	**60**	21	39	+
Net income due to non-controlling interests	**(9)**	(11)	2	18.2
Net income due to the Bank's shareholders	**820**	919	(99)	(10.8)
Return on equity (%)	**10.3**	12.7		
Basic earnings per share (NIS)	**0.52**	0.60		

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

	Nine months ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Net interest income	**5,956**	5,659	297	5.2
Provision for credit losses	**146**	(171)	317	+
Noninterest income	**3,813**	4,084	(271)	(6.6)
Operating and other expenses	**6,146**	6,300	(154)	(2.4)
Profit before tax	**3,477**	3,614	(137)	(3.8)
Tax expense	**1,220**	1,292	(72)	(5.6)
Profit after tax	**2,257**	2,322	(65)	(2.8)
Bank's share in profits of associate companies	**85**	56	29	51.8
Net income due to non-controlling interests	**(24)**	(30)	6	20.0
Net income due to the Bank's shareholders	**2,318**	2,348	(30)	(1.3)
Return on equity (%)	**9.7**	10.7		
Basic earnings per share (NIS)	**1.50**	1.55		

The development of net income by quarter is as follows:

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net interest income	**1,918**	**2,165**	1,873	1,867	1,970	2,034	1,655
Provision for credit losses	**3**	**42**	101	46	106	(154)	(123)
Noninterest income	**1,306**	**1,220**	1,287	1,324	1,514	1,538	1,032
Other operating expenses	**2,076**	**2,020**	2,050	2,280	1,955	2,355	1,990
Profit before tax	**1,145**	**1,323**	1,009	865	1,423	1,371	820
Tax expense	**376**	**456**	388	425	514	407	371
Profit after tax	**769**	**867**	621	440	909	964	449
Bank's share in profits of associate companies	**60**	**15**	10	10	21	16	19
Net income due to non-controlling interests	**(9)**	**(6)**	(9)	(7)	(11)	(10)	(9)
Net income due to the Bank's shareholders	**820**	**876**	622	443	919	970	459
Return on equity (%)	**10.3**	**11.3**	8.1	5.8	12.7	13.7	6.6
Basic earnings per share (NIS)	**0.52**	**0.57**	0.41	0.29	0.60	0.64	0.31

Net interest income

Net interest income of Leumi Group in the first nine months of the year was NIS 5,956 million, compared with NIS 5,659 million in the corresponding period last year, an increase of 5.2%.

The increase in net interest income derives from an increase in the interest gap and an increase in interest-bearing assets.

Net interest income in the third quarter of 2017 was NIS 1,918 million, compared with NIS 1,970 million in the corresponding period last year, a decrease of 2.6%. The decrease in net interest income was affected by an increase in interest-bearing assets, on the one hand, and a decrease in the CPI in the third quarter of the year of 0.5%, compared with the increase of 0.4% 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) in the first nine months of the year is 2.03%, compared with 1.95% in the corresponding period last year.

The overall **interest spread** in the reported period was 1.83%, compared with a gap of 1.76% in the corresponding period last year.

The interest spreads in activity by segment were as follows:

In the CPI-linked segment, the interest margin in the reported period was 0.74%, similar to the corresponding period last year. In the foreign currency segment, the interest margin was 1.00%, compared with 1.14% in the corresponding period last year. In the unlinked NIS segment, the interest margin was 2.10% compared with 2.06% 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.

Provision for credit losses

	Nine months ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Individual provision (reversal of provision) for credit losses	**(201)**	(640)	439	68.6
Collective provision for credit losses	**347**	469	(122)	(26.0)
Total provision (reversal of provision) for credit losses	**146**	(171)	317	+
Percentage ratios:				
Percentage of individual provision (reversal of provision) for credit losses to total loans to the public, net	**(0.10)**	(0.33)		
Percentage of collective provision for credit losses to total loans to the public, net	**0.17**	0.24		
Percentage of total provision (reversal of provision) for credit losses to total loans to the public, net	**0.07**	(0.09)		

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Individual provision (reversal of provision) for credit losses		(40)	(31)	(117)	(111)	(254)	(275)
Collective provision for credit losses		82	132	163	217	100	152
Total provision (reversal of provision) for credit losses		42	101	46	106	(154)	(123)
Percentage ratios:							
Percentage of individual provision (reversal of provision) for credit losses to total loans to the public, net	**(0.20)**	(0.06)	(0.05)	(0.18)	(0.17)	(0.38)	(0.42)
Percentage of collective provision for credit losses to total loans to the public, net	**0.20**	0.12	0.20	0.25	0.33	0.15	0.23
Percentage of total provision (reversal of provision) 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 provisions for credit losses, see Note 6 and Note 13.

Noninterest income

	Nine months ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Noninterest financing income	**674**	1,057	(383)	(36.2)
Commissions	**3,068**	2,973	95	3.2
Other income	**71**	54	17	31.5
Total	**3,813**	4,084	(271)	(6.6)

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Noninterest financing income	**222**	197	255	225	499	534	24
Commissions	**1,043**	1,007	1,018	994	996	989	988
Other income	**41**	16	14	105	19	15	20
Total	**1,306**	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) in the first nine months of the year was 39%, compared with 41.9% in the corresponding period last year and 41.8% in the whole of 2016.

Below are details of noninterest financing income:

	Nine months ended September 30		Change	
	2017	2016		
	NIS millions		NIS millions	%
Income in respect of derivatives and exchange rate differences, net	**515**	115	400	+
Gains from sale of available-for-sale debentures, net	**82**	345	(263)	(76.2)
Gains from investments in shares including dividends	**103**	538	(435)	(80.9)
Net gains in respect of loans sold	**9**	45	(36)	(80.0)
Realized and unrealized gains (losses) and adjustments of debentures and shares available for trade to fair value, net (a)	**(35)**	14	(49)	-
Total	**674**	1,057	(383)	(36.2)

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net gains (losses) in respect of derivatives and net exchange rate differences	**4**	121	390	372	261	(92)	(54)
Gains from sale of available-for-sale debentures, net	**47**	30	5	12	286	50	9
Gains (losses) from investments in shares including dividends (a)	**15**	42	46	(28)	28	427	83
Net gains (losses) in respect of loans sold	**9**	-	-	(1)	31	14	-
Realized and unrealized gains (losses) from adjustments of debentures and shares available for trade to fair value, net (b)	**147**	4	(186)	(130)	(107)	135	(14)
Total	**222**	197	255	225	499	534	24

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

(b) In the second quarter of 2016 – includes income from the sale of Visa Europe totaling NIS 378 million.

The following is a breakdown of commissions:

	Nine months ended September 30		Change	
	2017	2016		
	NIS millions		NIS millions	%
Account management	**519**	537	(18)	(3.4)
Activity in certain securities and derivative instruments	**502**	449	53	11.8
Credit cards	**797**	766	31	4.0
Treatment of credit	**135**	135	-	-
Commissions for distribution of financial products	**225**	210	15	7.1
Conversion differences	**244**	246	(2)	(0.8)
Commissions from financing transactions	**408**	398	10	2.5
Other commissions	**238**	232	6	2.6
Total commissions	**3,068**	2,973	95	3.2

The increase in commissions of 3.2% in the first nine months of 2017, compared with the corresponding period last year, was largely due an increase in turnover of credit card activity and in securities.

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Account management	**170**	171	178	178	180	178	179
Activity in certain securities and derivative instruments	**170**	163	169	143	143	144	162
Credit cards	**277**	265	255	257	268	258	240
Treatment of credit	**44**	42	49	42	42	45	48
Commissions for distribution of financial products	**78**	74	73	77	72	70	68
Conversion differences	**83**	77	84	81	82	82	82
Commissions from financing transactions	**140**	133	135	136	130	136	132
Other commissions	**81**	82	75	80	79	76	77
Total commissions	**1,043**	1,007	1,018	994	996	989	988

Below are details of other income:

	Nine months ended September 30		Change	
	2017	2016		
	NIS millions		NIS millions	%
Profits from severance pay fund	**30**	20	10	50
Other income including sale of buildings and equipment	**41**	34	7	20.6
Total	**71**	54	17	31.5

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Profits from severance pay fund	**11**	12	7	14	15	5	-
Other income including sale of buildings and equipment	**30**	4	7	91	4	10	20
Total	**41**	16	14	105	19	15	20

Operating and other expenses

	Nine months ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**3,831**	4,142	(311)	(7.5)
Depreciation and amortization	**497**	492	5	1.0
Buildings and equipment maintenance expenses	**742**	762	(20)	(2.6)
Other expenses	**1,076**	904	172	19.0
Total operating and other expenses	**6,146**	6,300	(154)	(2.4)

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salaries and related expenses	**1,264**	1,276	1,291	1,280	1,354	1,546	1,242
Depreciation and amortization	**155**	159	183	171	172	175	145
Buildings and equipment maintenance expenses	**251**	239	252	272	263	250	249
Other expenses	**406**	346	324	557	166	384	354
Total operating and other expenses	**2,076**	2,020	2,050	2,280	1,955	2,355	1,990

Salary expenses

	Nine monthe ended September 30			
	2017	2016	Change	
	NIS millions		NIS millions	%
Salary and related expenses	**3,053**	3,322	(269)	(8.1)
Pension, severance pay and voluntary retirement expenses, net of fund profits	**735**	727	8	1.1
Total salary expenses before non-recurring bonuses	**3,788**	4,049	(261)	(6.4)
Non-recurring bonus and cancelation of long-service bonuses last year	**43**	93	(50)	(53.8)
Total salary expenses	**3,831**	4,142	(311)	(7.5)

Total current salary expenses decreased by NIS 261 million, reflecting a decrease of 6.4%. The decrease derives from the number of employees.

	2017			2016			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Salary and related expenses	**1,015**	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	**249**	240	246	228	249	251	227
Regulatory changes							
Total salary expenses before non-recurring bonuses	**1,264**	1,276	1,248	1,280	1,354	1,391	1,304
Non-recurring bonus and effect of collective agreements	**-**	-	43	-	-	155	(62)
Effect of collective agreements							
Total salary expenses	**1,264**	1,276	1,291	1,280	1,354	1,546	1,242

Salary and related expenses constitute 62.3% of total operating expenses, compared with 65.7% 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, were NIS 2,315 million in the reported period, compared with NIS 2,158 million in the corresponding period last year, an increase of 7.3%. Other operating expenses, net of the insurance refund in respect of the arrangement with the overseas authorities regarding the U.S. customers, fell by 3.3%.

Operating expenses constitute 62.9% of total income, compared with 64.7% 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 1.95% in the corresponding period last year and 1.96% in the whole of 2016.

Profits of associate companies

Profits of associate companies in the reported period amounted to NIS 85 million. compared with NIS 56 million in the corresponding period last year. Profits of associate companies in the third quarter amounted to NIS 60 million, compared with NIS 21 million in the corresponding quarter last year. The increase is attributable to a profit on the sale of activity in an associate company in a subsidiary, Leumi Partners.

Tax expense

The provision for tax of Leumi Group in the reported period was NIS 1,220 million, compared with NIS 1,292 million in the corresponding period last year. The provision for tax rate in the reported period was 35.1% of the pre-tax profit, compared with 35.7% in the corresponding period last year, a decrease of 0.6 percentage points. The tax rate in the reported period is similar to the statutory tax rate (35.0%). 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 January 1, 2016.

Below is a condensed statement of OCI:

	OCI 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)	Bank's share in OCI of associate companies	Adjustments in respect of employee benefits	Total	OCI attributed to non-controlling interests	OCI attributed to the Bank's shareholders
	NIS millions						
Balance at December 31, 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in period	154	(43)	(15)	(619)	(523)	-	(523)
Balance at September 30, 2016	221	(110)	23	(2,109)	(1,975)	(4)	(1,971)
Balance at December 31, 2016	(86)	(79)	18	(2,169)	(2,316)	(4)	(2,312)
Net change in period	**159**	**(104)**	**(17)**	**(621)**	**(583)**	**-**	**(583)**
Balance at September 30, 2017	**73**	**(183)**	**1**	**(2,790)**	**(2,899)**	**(4)**	**(2,895)**

	OCI 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)	Bank's share in OCI of associate companies	Adjustments in respect of employee benefits (c)	Total	OCI attributed to non-controlling interests	OCI attributed to the Bank's shareholders
	NIS millions						
Balance at June 30, 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Net change in period	(217)	(31)	(14)	507	245	-	245
Balance at September 30, 2016	221	(110)	23	(2,109)	(1,975)	(4)	(1,971)
Balance at June 30, 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Net change in period	**164**	**9**	**(10)**	**(536)**	**(373)**	**-**	**(373)**
Balance at September 30, 2017	**73**	**(183)**	**1**	**(2,790)**	**(2,899)**	**(4)**	**(2,895)**

	OCI 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)	Bank's share in OCI of associate companies	Adjustments in respect of employee benefits	Total	OCI attributed to non-controlling interests	OCI attributed to the Bank's shareholders
	NIS millions						
Balance at December 31, 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change in period	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at December 31, 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 first nine months of 2017 include an estimate of the cost of the voluntary retirement plan published in July 2017.

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

Total assets of the Leumi Group on September 30, 2017 were NIS 439.2 billion, compared with NIS 438.6 billion at the end of 2016, an increase of 0.1%, and compared with September 2016, an increase of 1.7%.

Of the Group's total assets, the value of assets denominated in or linked to foreign currency was NIS 88.2 billion, some 20.1% of total assets. In the first nine months of 2017, the NIS appreciated against the dollar by 8.2% and against the Euro by 2.8%. The change in the exchange rates of the NIS against foreign currencies contributed to a decrease of 1.3% in the Group's total assets, so that canceling the effect of the devaluation of the NIS, the total balance sheet increased to NIS 444.9 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 1,374 billion, compared with NIS 1,262 billion at the end of 2016 ($ 389 billion and $ 328 billion, respectively).

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

	September 30	December 31	Change from	Change from
	2017	2016	December 31, 2016	September 30, 2016
	NIS millions		%	
Total assets	**439,232**	438,603	0.1	1.7
Cash and deposits with banks	**66,134**	74,757	(11.5)	12.0
Securities	**82,098**	77,201	6.3	(0.5)
Loans to the public, net	**266,358**	261,957	1.7	0.8
Buildings and equipment	**2,931**	3,147	(6.9)	(3.7)
Deposits from the public	**350,201**	346,854	1.0	4.0
Deposits from banks	**4,460**	3,394	31.4	24.3
Debentures, notes and subordinated notes	**16,407**	22,640	(27.5)	(31.0)
Equity due to the Bank's shareholders	**32,793**	31,347	4.6	5.0

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

	September 30	December 31	Change from	Change from
	2017	2016	December 31, 2016	September 30, 2016
	NIS millions		%	
Documentary credits, net	**1,204**	1,418	(15.1)	(23.1)
Guarantees to secure credit, net	**5,202**	5,730	(9.2)	(9.7)
Guarantees to purchasers of apartments, net	**19,103**	19,538	(2.2)	(1.2)
Other guarantees and liabilities, net	**15,311**	15,623	(2.0)	(2.0)
Derivatives (a)	**683,594**	644,454	6.1	(0.2)
Options of all types	**121,855**	91,986	32.5	(3.3)

(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 in the Leumi Group:

	September 30	December 31		
	2017	2016	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**665,825**	613,213	52,612	8.6
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	**49,555**	47,636	1,919	4.0
Provident and pension funds	**112,817**	78,189	34,628	44.3
Supplementary training funds	**106,541**	84,774	21,767	25.7

(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 September 30, 2017 were NIS 266.4 billion, compared with NIS 262.0 billion at the end of 2016, an increase of 1.7%.

The change in the exchange rates of the NIS against all foreign currencies contributed to a decrease of 0.9% in total loans to the public. Excluding the effect of the change, there was an increase of 2.6% in total loans to the public.

As well as extending loans to the public, the Group invests in the securities of companies, totaling NIS 13,585 million at September 30, 2017, compared with NIS 13,986 million at the end of 2016. These investments also involve credit risk.

Loans to the public in unlinked NIS, at September 30, 2016, constituted 69.6% of total credit, compared with 6.6% at December 31, 2016. Against the increase in the weight of unlinked credit, there was a decrease, mainly in CPI-linked loans which, at September 30, 2017 constituted 16.1% of total credit, compared with 16.9% at December 31, 2016.

The following table sets out the development of loans to the public, after the credit loss allowance, by principal operating segments:

	September 30 2017	December 31 2016	Change		Change excluding the effect of exchange rate differences
	NIS millions		NIS millions	%	%
Individuals - housing loans	**77,687**	78,658	(971)	(1.2)	(1.2)
Individuals - other	**38,276**	37,770	506	1.3	1.6
Construction and real estate	**51,121**	48,308	2,813	5.8	7.1
Commercial	**27,677**	26,980	697	2.6	3.5
Industry	**19,114**	18,053	1,061	5.9	8.0
Other	**52,483**	52,188	295	0.6	(0.3)
Total	**266,358**	261,957	4,401	1.7	2.6

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

Problematic credit risk

Problematic credit risk after individual and collective allowances is as follows:

	September 30 2017			December 31 2016		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired credit risk, net	**2,608**	**129**	**2,737**	2,942	176	3,118
Substandard credit risk, net	**927**	**61**	**988**	1,013	74	1,087
Special mention credit risk, net	**2,207**	**935**	**3,142**	2,233	1,190	3,423
Total	**5,742**	**1,125**	**6,867**	6,188	1,440	7,628

	September 30 2017	December 31 2016
	NIS millions	
Commercial problematic credit risk	**6,885**	7,984
Retail problematic credit risk	**1,376**	1,427
Total	**8,261**	9,411
Balance of credit loss allowance	**1,394**	1,783
Problematic credit after credit loss allowance	**6,867**	7,628

For additional information on problematic credit, see chapter on "Credit Risks" and Note 13.

Securities

The Group's investments in securities at September 30, 2017 totaled NIS 82.1 billion, compared with NIS 77.2 billion at the end of 2016, an increase of 6.3%.

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 OCI, 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 amortized cost.

At January 1, 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:

	September 30, 2017				December 31, 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	**36**	**39,004**	**4,760**	**43,800**	-	35,409	5,091	40,500
Foreign governments	**-**	**13,378**	**473**	**13,851**	-	11,449	2,458	13,907
Financial institutions in Israel	**-**	**23**	**55**	**78**	-	23	159	182
Foreign financial institutions(c)	**-**	**8,554**	**197**	**8,751**	-	7,460	104	7,564
Asset-backed (ABS) or mortgage-backed (MBS)	**408**	**8,613**	**288**	**9,309**	-	9,749	280	10,029
Others in Israel	**-**	**82**	**157**	**239**	-	296	132	428
Others abroad	**370**	**2,567**	**334**	**3,271**	-	2,362	286	2,648
Shares and mutual funds	**-**	**2,795**	**4**	**2,799**	-	1,942	1	1,943
Total securities	**814**	**75,016**	**6,268**	**82,098**	-	68,690	8,511	77,201

(a) Including unrealized gains (losses) from adjustments to fair value totaling NIS 154 million which were recorded in OCI (December 31, 2016 – NIS (92) million).

(b) Including unrealized gains (losses) from adjustments to fair value totaling NIS 14 million which were recorded in profit and loss (December 31, 2016 –NIS 9 million).

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

At September 30, 2017, 91.4% of the Group's nostro portfolio was classified as available-for-sale securities and 7.6% as the trading portfolio. 3.4 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 measurement method, see Note 15A.

Available-for-sale portfolio

1. In first nine months of 2017, there was an increase of NIS 256 million in OCI in respect of available-for-sale securities (before the effect of tax) compared with an increase of NIS 210 million (before the effect of tax) in the corresponding period last year.
2. Net gains from the sale of available-for-sale debentures of NIS 82 million were recorded to profit and loss, compared with gains of NIS 345 million in the corresponding period last year, and net gains from investments in shares of NIS 88 million, compared with gains of NIS 507 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 September 30, 2017 was NIS 73 million (after the effect of tax), compared with a negative amount of NIS 86 million at the end of 2016. These amounts represent net gains (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 September 30, 2017, there were NIS 6.3 billion in debentures in the trading portfolio, compared with NIS 8.5 billion of debentures on December 31, 2016. At September 30, 2017, the trading portfolio constituted 7.6% of the Group's total nostro portfolio, compared with 11.0% at December 31, 2016.

In respect of trading debentures, realized and unrealized losses of NIS 78 million were recorded in the statement of profit and loss, compared with gains totaling NIS 46 million in the corresponding period last year. The losses in the first nine months of 2017 derived from exchange rate differences recorded to the securities in the trading portfolio, and they are offset against gains 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 September 30, 2017, totaled NIS 8.9 billion ($ 2.5 billion), compared with NIS 10.0 billion at the end of 2016. Of the aforementioned portfolio at September 30, 2017, NIS 8.6 billion ($2.4 billion) were classified in the available-for-sale portfolio, the of held-for-trading portfolio, and the held-to maturity portfolio.

The available-for-sale portfolio of investments in asset-backed securities abroad at September 30, 2017 includes an investment in mortgage-backed debentures totaling NIS 7.1 billion. 87% 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 September 30, 2017, the accumulated net decrease in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was NIS 64 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 1,526 million.

The projected term to maturity for the entire mortgage-backed securities portfolio is an average of 4.96 years. In addition to mortgage-backed securities, the Group’s available-for-sale portfolio also includes other securities backed by assets other than mortgages totaling NIS 1.5 billion, of which, CLO-type debentures total NIS 1. 3 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.7 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 September 30, 2017 includes NIS 29.8 billion ($ 8.4 billion) of non-asset-backed securities issued abroad. Of these securities, NIS 28.4 billion ($ 8.0 billion) were classified in the available-for-sale portfolio, with the balance in the trading portfolio and the held-to-maturity portfolio. Of the total securities, 99.3% 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 September 30, 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 77 million (NIS 50 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. 95.4% of the securities in the trading portfolio are investment grade.

The value of the non-asset backed trading portfolio at September 30, 2017 totaled NIS 1.0 billion ($ 0.3 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 were NIS 42.5 billion at September 30, 2017, of which NIS 42.2 billion was in debentures issued by the Government of Israel in NIS, with the balance in debentures of the Government of Israel in foreign currency and corporate debentures. 33.1% of the investments in corporate debentures, totaling NIS 0.1 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 0.1 billion, include a capital reserve totaling NIS 7 million.

All the corporate debentures in the trading portfolio are listed for trade and quoted on the Stock Exchange.

Investments in shares and funds

Total investments in shares and funds were NIS 2,799 million on September 30, 2017, of which NIS 1,848 million was in listed shares and NIS 951 million was in non-listed shares. Of the total investment, NIS 2,795 million was classified in the available-for-sale portfolio and NIS 4 million was classified in the trading portfolio.

The required capital in respect of these investments at September 30, 2017 was NIS 350 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 were NIS 350.2 billion at September 30, 2017, compared with NIS 346.9 billion at the end of 2016, an increase of 1.0%, and compared with September 2016, an increase of 4.0%.

The change in the exchange rate of the NIS against all foreign currencies decreased total deposits from the public by 2.0%, so that, excluding the effects of the change, there was an increase of 2.9% in deposits from the public.

Debentures, capital notes and subordinated notes

Debentures, capital notes and subordinated notes totaled NIS 16.4 billion at September 30, 2017, compared with NIS 22.6 million at the end of 2016, a decrease of 27.5%.

Early repayment of deposits / deferred capital notes

On January 26, 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, capital notes in an aggregate amount of NIS 534 million were repaid.

Capital and Capital Adequacy

Leumi's shareholders' equity at September 30, 2017 was NIS 32,793 million, compared with NIS 31,347 million at the end of 2016, an increase of 4.6%. The increase is mainly derived 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 capital to total assets at September 30, 2017 reached 7.5%, compared with 7.1% at December 31, 2016.

Capital adequacy structure

	September 30, 2017	September 30, 2016	December 31, 2016
	Unaudited		Audited
	NIS millions		
Capital for purposes of calculating capital ratio			
Common Equity Tier 1 capital, after regulatory adjustments and deductions	**34,180**	32,255	32,586
Tier 2 capital, after deductions	**11,243**	12,405	11,850
Total capital	**45,423**	44,660	44,436
Weighted balances of risk-weighted assets			
Credit risk	**275,318**	271,243	266,534
Market risk	**5,018**	5,212	4,788
Operational risk	**20,867**	20,518	20,843
Total weighted balances of risk-weighted assets	**301,203**	296,973	292,165
Ratio of capital to risk components			
Ratio of Common Equity Tier 1 capital to risk components	**11.35%**	10.86%	11.15%
Ratio of total capital to risk components	**15.08%**	15.04%	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 Nos. 201-211. These directives came into effect on January 1, 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 credit loss allowance before the related tax effect, up to a ceiling of 1.25% of total credit risk-weighted assets.

With regard to capital instruments included in Tier 2 capital at December 31, 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 December 31, 2013, which is being amortized at the beginning of each year by 10% until January 1, 2022. In 2017, the recognition ceiling is 50%.

From the beginning of 2014, capital instruments issued for the purpose of their inclusion in capital must 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/ in the chapter regarding >Financial information > Disclosure according to Pillar 3 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 December 31, 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 January 1, 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 target and total capital target at a rate of 1% of the balance of housing loans. This requirement was implemented gradually over eight quarters through January 1, 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 September 30, 2017 are 10.26% for the CET1 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 OCI, 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 target, such that from December 31, 2017, it will stand at 10.5%.

Adjustments to Common Equity Tier 1 capital

Measurement of liabilities in respect of employee benefits

The standards regarding employee benefits which were initially implemented in January 2015 have 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 June 30, 2016 and through the financial statements for December 31, 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 Plans

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 September 2017, 25% of the costs of this Plan were 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 July 2017, the Board of Directors of the Bank approved an additional efficiency plan, the cost of which was estimated at NIS 330 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. September 2017 – 5% of the costs of this plan are attributed to the regulatory capital.

- **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. The directives, at this stage, do not alter the treatment of the Bank's exposures to customers in respect of transactions in marketable derivatives on the Stock Exchange in Israel, in which the Bank continues to apply the scenario method.

  In July 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 NIS 301.2 billion at September 30, 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 were NIS 34.2 billion at the end of September 2017. The total capital amounts to NIS 45.4 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 U.S. 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 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 March 29, 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, each quarter, the Bank 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.

On November 20, 2017, the Board of Directors of the Bank approved a change in the dividend distribution policy from a rate of 20% each quarter to a rate of up to 40% each quarter of the net profit in respect of that quarter commencing the profits of the third quarter of 2017. In accordance with this policy, the Bank will distribute, every quarter, a dividend at a rate of up to 40% of the net profit of the Bank according to the financial statements of the Bank for the preceding quarter and subject to, inter alia, the Bank meeting its capital adequacy targets, after distributing 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.

In accordance with the revised policy, the Board of Directors approved, in respect of the third quarter of 2017, a dividend of 40% of net profit of the quarter. The dividend approved amounted to NIS 328 million. The accumulated dividend in respect of the first nine months of the year totaled NIS 628 million.

Details regarding dividend paid

Date declared	Date paid	Dividend per share	Dividend paid in cash
		In NIS	In NIS millions
May 25, 2017	June 22, 2017	0.08168	124
August 15, 2017	September 11, 2017	0.11504	175

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:

	Three months ended September 30 , 2017								
	NIS millions								
	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			
Net interest income	**1,007**	**265**	**151**	**117**	**53**	**(3)**	**81**	**247**	**1,918**
Noninterest income	**454**	**106**	**64**	**79**	**128**	**(13)**	**313**	**175**	**1,306**
Total income	**1,461**	**371**	**215**	**196**	**181**	**(16)**	**394**	**422**	**3,224**
Provision for credit losses	**116**	**17**	**(23)**	**(140)**	**1**	**(8)**	**19**	**21**	**3**
Total operating and other expenses	**1,057**	**192**	**67**	**31**	**68**	**202**	**246**	**213**	**2,076**
Profit (loss) before tax	**288**	**162**	**171**	**305**	**112**	**(210)**	**129**	**188**	**1,145**
Tax expenses (income)	**101**	**56**	**60**	**107**	**39**	**(51)**	**40**	**24**	**376**
Net income (loss) due to the Bank's shareholders	**187**	**106**	**111**	**198**	**74**	**(159)**	**139**	**164**	**820**

	Three months ended September 30 , 2016								
	NIS millions								
	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate (a)	Real Estate(a)	Capital Markets	Other			
Net interest income	954	229	123	132	225	15	63	229	1,970
Noninterest income (expenses)	444	100	49	79	506	66	297	(27)	1,514
Total income	1,398	329	172	211	731	81	360	202	3,484
Provision for credit losses	226	(19)	(32)	(78)	(12)	(7)	9	19	106
Total operating and other expenses (income)	1,136	181	102	45	148	(106)	226	223	1,955
Profit (loss) before tax	36	167	102	244	595	194	125	(40)	1,423
Tax expenses (income)	11	56	32	81	206	81	33	14	514
Net income (loss) due to the Bank's shareholders	25	111	70	163	392	113	99	(54)	919

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

	Nine months ended September 30 , 2017								
	NIS millions								
	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate	Real Estate	Capital Markets	Other			
Net interest income	**3,026**	**748**	**435**	**337**	**468**	**(2)**	**210**	**734**	**5,956**
Noninterest income	**1,351**	**312**	**173**	**244**	**508**	**91**	**915**	**219**	**3,813**
Total income	**4,377**	**1,060**	**608**	**581**	**976**	**89**	**1,125**	**953**	**9,769**
Provision for credit losses	**325**	**26**	**(88)**	**(175)**	**(15)**	**(16)**	**50**	**39**	**146**
Total operating and other expenses	**3,136**	**524**	**204**	**96**	**212**	**623**	**737**	**614**	**6,146**
Profit (loss) before tax	**916**	**510**	**492**	**660**	**779**	**(518)**	**338**	**300**	**3,477**
Tax expenses (income)	**321**	**178**	**172**	**231**	**273**	**(129)**	**94**	**80**	**1,220**
Net income (loss) due to the Bank's shareholders	**595**	**332**	**320**	**429**	**506**	**(389)**	**305**	**220**	**2,318**
Balance at September 30, 2017									
Loans to the public, net	**137,651**	**36,454**	**32,960**	**20,056**	**4,079**	**3,443**	**8,805**	**22,910**	**266,358**
Deposits from the public	**191,263**	**41,736**	**20,901**	**5,484**	**66,066**	**52**	**88**	**24,611**	**350,201**
Assets under management	**188,514**	**24,693**	**21,016**	**1,694**	**#########**	**23,114**	**245,875**	**18,842**	**934,738**

	Nine months ended September 30 , 2016								
	NIS millions								
	Bank						Subsidiaries in Israel	Foreign subsidiaries	Total
	Banking	Commercial	Corporate (a)	Real Estate(a)	Capital Markets	Other			
Net interest income	2,790	667	384	400	543	15	169	691	5,659
Noninterest income (expenses)	1,319	302	160	255	603	600	858	(13)	4,084
Total income	4,109	969	544	655	1,146	615	1,027	678	9,743
Provision for credit losses	521	(20)	(335)	(309)	(41)	(13)	24	2	(171)
Total operating and other expenses	3,323	520	279	134	296	426	671	651	6,300
Profit (loss) before tax	265	469	600	830	891	202	332	25	3,614
Tax expenses (income)	93	164	210	291	312	(21)	191	52	1,292
Net income (loss) due to the Bank's shareholders	172	305	390	539	583	223	163	(27)	2,348

Balance at September 30, 2016									
Loans to the public, net	140,511	34,036	29,507	22,283	3,342	3,401	7,452	23,836	264,368
Deposits from the public	187,440	39,458	18,077	6,887	57,867	42	110	26,970	336,851
Assets under management	178,603	26,297	18,402	1,812	356,959	24,178	185,614	20,094	811,959

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

	Year ended December 31, 2016								
	NIS millions								
	Bank						Subsidiaries in Israel	Foreign subsidiaries	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
Provision 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 (loss) due to the Bank's shareholders	173	427	481	696	774	75	231	(66)	2,791

Balance as at December 31, 2016									
Loans to the public, net	138,496	34,089	30,238	21,229	3,779	3,152	7,407	23,567	261,957
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.

	Three months ended September 30 , 2017									
	NIS millions									
	Activity in Israel								Activity abroad	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		
Net interest income	**645**	**21**	**486**	**181**	**306**	**17**	**3**	**-**	**259**	**1,918**
Noninterest income	**451**	**42**	**186**	**83**	**173**	**46**	**204**	**37**	**84**	**1,306**
Total income	**1,096**	**63**	**672**	**264**	**479**	**63**	**207**	**37**	**343**	**3,224**
Provisions for credit losses	**75**	**(1)**	**63**	**11**	**(161)**	**(8)**	**7**	**-**	**17**	**3**
Total operating and other expenses	**958**	**27**	**346**	**135**	**122**	**67**	**25**	**183**	**213**	**2,076**
Profit (loss) before tax	**63**	**37**	**263**	**118**	**518**	**4**	**175**	**(146)**	**113**	**1,145**
Tax expenses	**13**	**13**	**87**	**41**	**185**	**2**	**46**	**(43)**	**32**	**376**
Net income due to the Banks's shareholders	**38**	**24**	**175**	**76**	**332**	**2**	**190**	**(99)**	**82**	**820**

	Three months ended September 30 , 2016									
	NIS millions									
	Activity in Israel								Activity abroad	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		
Net interest income	630	21	429	150	290	14	207	-	229	1,970
Noninterest income	443	39	185	80	159	40	479	21	68	1,514
Total income	1,073	60	614	230	449	54	686	21	297	3,484
Provisions for credit losses	131	-	60	(26)	(90)	(1)	2	-	30	106
Total operating and other expenses	997	31	361	116	168	78	37	(109)	276	1,955
Profit (loss) before tax	(55)	29	193	140	371	(23)	647	130	(9)	1,423
Tax expenses	(27)	10	68	50	130	(9)	253	27	12	514
Net income due to the Banks's shareholders	(40)	19	123	90	238	(12)	416	106	(21)	919

	Nine months ended September 30 , 2017									
	NIS millions									
	Activity in Israel								Activity abroad	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		
Net interest income	**1,959**	**67**	**1,431**	**499**	**875**	**51**	**340**	**-**	**734**	**5,956**
Noninterest income	**1,314**	**127**	**560**	**240**	**502**	**134**	**669**	**73**	**194**	**3,813**
Total income	**3,273**	**194**	**1,991**	**739**	**1,377**	**185**	**1,009**	**73**	**928**	**9,769**
Provision for credit losses	**133**	**1**	**197**	**(18)**	**(196)**	**(6)**	**(4)**	**-**	**39**	**146**
Total operating and other expenses	**2,761**	**92**	**1,056**	**375**	**388**	**203**	**80**	**575**	**616**	**6,146**
Profit (loss) before tax	**379**	**101**	**738**	**382**	**1,185**	**(12)**	**933**	**(502)**	**273**	**3,477**
Tax expenses	**111**	**36**	**254**	**134**	**416**	**(4)**	**305**	**(120)**	**88**	**1,220**
Net income due to the Banks's shareholders	**237**	**65**	**482**	**247**	**767**	**(8)**	**714**	**(372)**	**186**	**2,318**
Balance at September 30, 2017										
Gross loans to the public	**109,014**	**503**	**54,626**	**25,711**	**55,196**	**1,303**	**-**	**-**	**23,277**	**269,630**
Deposits from the public	**111,837**	**28,616**	**40,674**	**32,353**	**49,546**	**62,563**	**-**	**-**	**24,612**	**350,201**
Assets under management	**78,151**	**51,487**	**31,314**	**15,867**	**80,238**	**620,564**	**38,275**	**-**	**18,842**	**934,738**

	Nine months ended September 30 , 2016									
	NIS millions									
	Activity in Israel								Activity abroad	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		
Net interest income	1,846	63	1,266	430	857	40	482	-	675	5,659
Noninterest income	1,279	120	547	238	480	124	1,042	39	215	4,084
Total income	3,125	183	1,813	668	1,337	164	1,524	39	890	9,743
Provision for credit losses	329	1	126	(66)	(527)	(12)	(53)	-	31	(171)
Total operating and other expenses	2,897	96	1,056	356	467	213	100	410	705	6,300
Profit (loss) before tax	(101)	86	631	378	1,397	(37)	1,477	(371)	154	3,614
Tax expenses	(62)	31	223	134	496	(14)	577	(144)	51	1,292
Net income due to the Banks's shareholders	(74)	55	404	243	898	(21)	957	(217)	103	2,348
Balance at September 30, 2016										
Gross loans to the public	112,958	616	50,460	23,334	55,126	1,168	-	-	24,233	267,895
Deposits from the public	113,950	28,921	36,996	31,163	43,904	54,948	-	-	26,969	336,851
Assets under management	78,539	50,464	28,708	20,031	64,876	511,216	38,031	-	20,094	811,959

	Year ended December 31, 2016									
	NIS millions									
	Activity in Israel								Activity abroad	Total
	Household	Private Banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instituional entities	Financial management	Other		
Net interest income	2,496	86	1,699	571	1,146	57	565	-	906	7,526
Noninterest income	1,712	161	725	318	641	163	1,306	139	243	5,408
Total income	4,208	247	2,424	889	1,787	220	1,871	139	1,149	12,934
Provision for credit losses	447	1	184	(120)	(573)	(33)	(64)	-	33	(125)
Total operating and other expenses	3,927	131	1,430	501	578	285	177	605	946	8,580
Profit (loss) before tax	(166)	115	810	508	1,782	(32)	1,758	(466)	170	4,479
Tax expenses	(91)	42	287	179	633	(11)	675	(67)	70	1,717
Net income due to the Banks's shareholders	(117)	73	519	327	1,145	(21)	1,150	(385)	100	2,791
Balance at December 31, 2016										
Gross loans to the public	110,719	615	50,847	24,178	53,659	1,486	-	-	23,946	265,450
Deposits from the public	114,948	28,696	39,866	33,026	47,735	55,862	-	-	26,721	346,854
Assets under management	76,872	49,663	28,851	20,484	66,710	528,324	33,664	-	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) were NIS 11.5 billion at September 30, 2017, compared with NIS 11.4 billion at December 31, 2016, and the contribution of investee companies to the Group's net income was NIS 484 million, compared with net income of NIS 136 million in the corresponding period last year.

Consolidated companies in Israel

The Bank's total investments (including investments in capital notes) in consolidated companies in Israel was NIS 7,117 million at September 30, 2017, compared with NIS 6,832 million on December 31, 2016. Their contribution to the Group's net operating profit was NIS 299 million in the first nine months of 2017, compared with NIS 175 million in the corresponding period last year, an increase of 70.9%. The Group's return on its investment in the consolidated companies in Israel was 6.8% in the first nine months of 2017 compared with 4.0% in the corresponding period last year.

Leumi Partners

On May 7, 2017, the subsidiary Leumi Partners entered into an agreement in a non-binding memorandum of understanding[1] (hereinafter: "the memorandum of understanding") with Direct Insurance - Financial Investments Ltd. (hereinafter: "Financial Investments"), pursuant to which, subject to the completion of Financial Investments' conversion to a private company, Leumi Partners and other investors will purchase ordinary shares of Financial Investments in an amount of NIS 480 million by way of a private placement, with Leumi Partners' share being up to 10% of the issued and paid-up capital of Financial Investments, for consideration of NIS 150 million.

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

The execution of the transaction is contingent on conditions precedent and the amount of the transaction will be adjusted for dividends and capital movements in financial investments subsequent to March 31, 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.

Leumi Card

In 2006, Leumi Card entered into an agreement with Shufersal Ltd. (hereinafter, "Shufersal") to issue credit cards to customers of Shufersal. For the purpose of operating the venture, pursuant to the agreement, "Shufersal Finances Limited Partnership" (hereinafter, "Shufersal Finances") was established, incorporating the activity related to Shufersal credit cards. The agreement detailed, inter alia, the allocation of income between the parties. Leumi Card's share in the partnership – 16%.

Further to a report of Shufersal dated July 12, 2017, in which it notified Paz Oil Company Ltd (hereinafter, "Paz") of the exercise of the call option to purchase the holdings of Paz in Shufersal Finances, and that Leumi Card has the right to notify Shufersal of its wish to participate in the purchase of Paz's holdings, and in the aforementioned case, Shufersal and Leumi Card will purchase the holdings of Paz, pro rata between them according to their share on Shufersal Finances, on July 26, 2017, Leumi Card notified Shufersal that it intends to participate in the purchase of Paz's holdings in Shufersal Finances. On August 29, 2017, Shufersal notified Leumi Card that it does not wish to renew the agreement for the issue of credit cards and, further, Shufersal reported to the Stock Exchange that it had signed a document of principles with another company for the issue and operation of credit cards to the club's customers.

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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.

Pursuant to the agreement Shufersal and Leumi Card, the termination date of the agreement is January 18, 2018, with Leumi Card continuing to operate the credit card club until the card's expiry according to the provisions of the agreement. As of September 30, 2017, the number of valid credit cards held by the club's customers was about 516,000.

In addition, on October 19, 2017, Shufersal announced its intention to take steps to exercise a call option to purchase all of Leumi Card's holdings in Shufersal Finances according to a valuation of Shufersal Finances to be made by an agreed assessor. The difference between the exercise price and the value in the books will be carried to the profit and loss.

Foreign consolidated companies

The Bank's total investment in offices abroad (including investments and capital notes) on September 30, 2017 was NIS 4,239 million, compared with NIS 4,416 million at the end of 2016.

The contribution of the foreign offices to the net income of the Group in NIS in the first nine months of 2017 amounted to NIS 183 million, compared with a loss of NIS 44 million in the corresponding period last year.

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

Exposure to Risk and Risk Management Methods

This chapter is written in greater detail in the 2016 Board of Directors and Management Report and in the 2016 Annual Report on Risks. 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 risk, market risk, liquidity risk and operating risk. 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 2016 Board of Directors and Management Report.

Severity of risk factors

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

Credit risk

Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not fulfill its obligations vis-à-vis the 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 credit loss allowance 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.

Problematic Credit Risk

	September 30, 2017		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problematic credit risk: (a)			
Impaired credit risk	**3,154**	**282**	**3,436**
Subordinate credit risk	**1,079**	**66**	**1,145**
Credit risk under special mention (b)	**2,670**	**1,010**	**3,680**
Total problematic credit	**6,903**	**1,358**	**8,261**
Of which: Unimpaired debts in arrears 90 days or more (b)	**909**	**-**	**909**
2. Non-performing assets:			
Impaired debts	**2,557**	**-**	**2,557**
Assets received in respect of credit cleared	**14**	**-**	**14**
Total non-performing assets	**2,571**	**-**	**2,571**

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

	December 31, 2016		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problematic 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 problematic credit	7,715	1,696	9,411
Of which: Unimpaired debts in arrears 90 days or more (b)	1,003	-	1,003
2. Non-performing assets:			
Impaired debts	3,223	-	3,223
Assets received in respect of credit cleared	14	-	14
Total non-performing assets	3,237	-	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) Risk of impaired credit, substandard credit or credit 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

	September 30		December 31
	2017	2016	2016
	%		
Balance of impaired loans to the public as a percentage of the balance of loans to the public	**1.16**	1.52	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	**0.34**	0.36	0.38
Impaired credit to the public not accruing interest income (NPL) as a percentage of credit to the public	**2.55**	3.03	2.90
Problematic credit risk in respect of the public as a percentage of total credit risk in respect of the public	**0.95**	1.33	1.21
Provision for credit losses as a percentage of the average balance of loans to the public	**0.05**	(0.06)	(0.05)
Net write-offs for loans to the public as a percentage of the average balance of loans to the public	**(0.13)**	0.01	(0.02)

Details of credit risk metrics of credit loss allowance

	September 30		December 31
	2017	2016	2016
	%		
Balance of credit loss 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 credit loss allowance for losses for loans to the public as a percentage of the balance of impaired loans to the public	**120.1**	98.5	109.0
Balance of credit loss allowance for 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	**93.1**	79.7	85.5
Net write-offs for loans to the public as a percentage of the balance of the credit loss allowance for loans to the public	**(9.2)**	0.9	(1.2)

Loan concentration

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

	September 30, 2017									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
					Of which:[1]			Credit losses (d)		
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Provision for credit losses	Net accounting write-offs	Balance of credit loss allowance
	NIS millions									
For activity of borrowers in Israel										
Public - Commercial										
Agriculture	**2,219**	**2,077**	**142**	**2,218**	**1,899**	**142**	**71**	**3**	**3**	**(53)**
Mining and quarrying	**920**	**919**	**1**	**897**	**425**	**1**	**-**	**-**	**-**	**(1)**
Industry	**22,818**	**21,738**	**1,080**	**22,550**	**15,180**	**1,076**	**597**	**98**	**148**	**(453)**
Construction and real estate - construction (g)	**48,963**	**47,590**	**1,373**	**48,855**	**17,623**	**1,373**	**304**	**76**	**33**	**(364)**
Construction and real estate - real estate activity	**27,212**	**26,346**	**866**	**27,115**	**24,087**	**862**	**705**	**(186)**	**(131)**	**(390)**
Electricity and water	**4,362**	**4,011**	**351**	**4,297**	**2,904**	**351**	**242**	**(7)**	**6**	**(53)**
Commerce	**28,557**	**27,747**	**810**	**28,423**	**23,718**	**802**	**205**	**20**	**66**	**(269)**
Hotels, catering services and food	**2,997**	**2,828**	**169**	**2,977**	**2,542**	**169**	**60**	**(4)**	**(5)**	**(27)**
Transport and storage	**8,246**	**8,013**	**233**	**8,180**	**6,879**	**220**	**152**	**24**	**13**	**(56)**
Communications and computer services	**5,291**	**5,196**	**95**	**4,982**	**3,497**	**95**	**85**	**(33)**	**2**	**(33)**
Financial services	**20,273**	**20,241**	**32**	**13,360**	**10,482**	**11**	**4**	**(67)**	**(51)**	**(191)**
Business and other services	**9,744**	**9,617**	**127**	**9,723**	**7,031**	**127**	**52**	**24**	**34**	**(139)**
Public and community services	**8,735**	**8,668**	**67**	**8,713**	**7,371**	**67**	**23**	**17**	**13**	**(57)**
Total commercial (h)	**190,337**	**184,991**	**5,346**	**182,290**	**123,638**	**5,296**	**2,500**	**(35)**	**131**	**(2,086)**
Private individuals - housing loans	**79,141**	**78,436**	**705**	**79,141**	**77,608**	**704**	**-**	**(15)**	**5**	**(442)**
Private individuals - other	**68,679**	**68,054**	**625**	**68,675**	**38,533**	**625**	**136**	**149**	**172**	**(794)**
Total public - activity in Israel	**338,157**	**331,481**	**6,676**	**330,106**	**239,779**	**6,625**	**2,636**	**99**	**308**	**(3,322)**
Banks in Israel	**4,189**	**4,189**	**-**	**1,683**	**1,589**	**-**	**-**	**-**	**-**	**(1)**
Government of Israel	**44,821**	**44,821**	**-**	**150**	**150**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**387,167**	**380,491**	**6,676**	**331,939**	**241,518**	**6,625**	**2,636**	**99**	**308**	**(3,323)**

(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 241,518, 44,060, 872, 3,457, 97,260 million, respectively.
(b) Loans 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 reporting date corresponds with the credit rating for creating new loans 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 983 million, which were extended to purchasing groups in the process of construction
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Overall risk of loans to the public by market sector (contd.)

	September 30, 2017									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:[1]					
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Provision for credit losses	Net accounting write-offs	Balance of credit loss allowance
	NIS millions									
For activity of foreign borrowers										
Public - Commercial										
Agriculture	**76**	**75**	**1**	**73**	**46**	**1**	**1**	**-**	**-**	**(1)**
Mining and quarrying	**24**	**24**	**-**	**24**	**11**	**-**	**-**	**-**	**-**	**-**
Industry	**7,485**	**7,026**	**459**	**6,248**	**4,347**	**459**	**109**	**(2)**	**1**	**(37)**
Construction and real estate (g)	**14,879**	**14,078**	**801**	**14,134**	**10,070**	**801**	**405**	**5**	**8**	**(177)**
Electricity and water	**229**	**229**	**-**	**79**	**23**	**-**	**-**	**-**	**-**	**-**
Commerce	**6,542**	**6,521**	**21**	**6,279**	**4,284**	**21**	**21**	**19**	**4**	**(81)**
Hotels, catering services and food	**1,801**	**1,798**	**3**	**1,784**	**1,720**	**3**	**-**	**2**	**1**	**(12)**
Transport and storage	**126**	**104**	**22**	**103**	**83**	**22**	**22**	**18**	**19**	**(19)**
Communications and computer services	**1,974**	**1,961**	**13**	**1,648**	**956**	**13**	**13**	**5**	**-**	**(6)**
Financial services	**16,391**	**16,273**	**118**	**2,089**	**1,505**	**120**	**120**	**(3)**	**2**	**(45)**
Business and other services	**6,342**	**6,241**	**101**	**6,081**	**5,379**	**101**	**32**	**7**	**3**	**(38)**
Public and community services	**602**	**602**	**-**	**600**	**396**	**-**	**-**	**-**	**-**	**(17)**
Total commercial	**56,471**	**54,932**	**1,539**	**39,142**	**28,820**	**1,541**	**723**	**51**	**38**	**(433)**
Private individuals - housing loans	**529**	**499**	**30**	**529**	**528**	**30**	**29**	**(3)**	**1**	**(7)**
Private individuals - other	**595**	**579**	**16**	**595**	**503**	**16**	**16**	**(1)**	**-**	**(2)**
Total public - foreign activity	**57,595**	**56,010**	**1,585**	**40,266**	**29,851**	**1,587**	**768**	**47**	**39**	**(442)**
Foreign banks	**29,412**	**29,412**	**-**	**9,860**	**8,737**	**-**	**-**	**-**	**-**	**-**
Foreign governments	**15,069**	**15,069**	**-**	**1,218**	**545**	**-**	**-**	**-**	**-**	**-**
Total foreign activity	**102,076**	**100,491**	**1,585**	**51,344**	**39,133**	**1,587**	**768**	**47**	**39**	**(442)**
Total	**489,243**	**480,982**	**8,261**	**383,283**	**280,651**	**8,212**	**3,404**	**146**	**347**	**(3,765)**

(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 39,133, 35,239, -, 7,503, 20,201 million, respectively.
(b) Loans 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 reporting date corresponds with the credit rating for creating new loans in accordance with the Bank's policy.
(g) Including housing loans, extended to certain purchasing groups in the process of construction.

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

	September 30, 2016									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					Of which:[1]					
	Total	Credit performance rating (f)	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired	Provision for credit losses	Net accounting write-offs	Balance of credit loss allowance
	NIS millions									
For activity of borrowers in Israel										
Public - Commercial										
Agriculture	2,159	2,019	140	2,157	1,819	140	74	13	4	(49)
Mining and quarrying	799	799	-	680	268	-	-	-	-	-
Industry	22,622	21,318	1,304	22,353	15,122	1,300	493	(173)	(174)	(543)
Construction and real estate - construction (g)	46,694	45,223	1,471	46,487	16,181	1,471	261	(32)	8	(304)
Construction and real estate - real estate activity	26,803	25,602	1,201	26,733	24,007	1,199	830	(271)	(74)	(445)
Electricity and water	4,822	4,454	368	4,550	3,084	368	270	24	1	(54)
Commerce	27,499	26,241	1,258	27,339	22,097	1,230	273	38	(14)	(351)
Hotels, catering services and food	2,844	2,453	391	2,793	2,525	391	255	(77)	(81)	(33)
Transport and storage	7,736	7,471	265	7,623	6,237	264	195	13	7	(41)
Communications and computer services	6,385	6,156	229	5,696	4,276	225	214	(9)	(1)	(68)
Financial services	19,733	19,198	535	14,174	10,050	535	531	(100)	(22)	(222)
Business and other services	8,725	8,569	156	8,687	6,050	156	68	72	28	(139)
Public and community services	8,302	8,248	54	8,288	6,974	54	31	16	9	(51)
Total commercial (h)	185,123	177,751	7,372	177,560	118,690	7,333	3,495	(486)	(309)	(2,300)
Private individuals - housing loans	82,673	81,975	698	82,673	80,594	697	-	-	21	(475)
Private individuals - other	67,518	66,904	614	67,509	38,105	614	122	330	207	(776)
Total public - activity in Israel	335,314	326,630	8,684	327,742	237,389	8,644	3,617	(156)	(81)	(3,551)
Banks in Israel	6,139	6,139	-	2,261	2,179	-	-	(1)	-	(2)
Government of Israel	47,996	47,996	-	226	226	-	-	-	-	-
Total activity in Israel	389,449	380,765	8,684	330,229	239,794	8,644	3,617	(157)	(81)	(3,553)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, derivative assets, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 239,794, 47,590, 896, 5,046, 96,122 million, respectively.
(b) Loans 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 reporting date corresponds with the credit rating for creating new loans in accordance with the Bank's policy.
(g) Including housing loans, extended to certain purchasing groups in the process of construction.
(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,044 million, which were extended to purchasing groups in the process of construction.

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

	September 30, 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 credit loss allowance
	NIS millions									
For activity of foreign borrowers										
Public - Commercial										
Agriculture	69	68	1	67	50	1	1	(1)	-	(1)
Mining and quarrying	41	41	-	32	26	-	-	-	-	-
Industry	8,329	8,064	265	6,806	4,333	266	47	(23)	18	(42)
Construction and real estate (g)	13,528	12,994	534	13,122	9,755	534	340	(26)	(2)	(198)
Electricity and water	179	179	-	93	46	-	-	-	-	-
Commerce	6,676	6,598	78	6,577	4,598	78	67	23	6	(91)
Hotels, catering services and food	1,961	1,955	6	1,961	1,645	6	-	(1)	-	(9)
Transport and storage	118	57	61	102	97	61	61	13	19	(15)
Communications and computer services	2,078	2,078	-	1,826	877	-	-	-	-	(1)
Financial services	17,074	16,955	119	2,420	1,735	119	119	(7)	(3)	(48)
Business and other services	6,353	6,314	39	6,219	5,240	39	21	8	-	(24)
Public and community services	1,115	1,107	8	692	492	8	8	(1)	-	(18)
Total commercial	57,521	56,410	1,111	39,917	28,894	1,112	664	(15)	38	(447)
Private individuals - housing loans	1,062	1,016	46	1,062	1,054	47	47	1	6	(11)
Private individuals - other	635	629	6	632	558	5	5	-	-	(5)
Total public - foreign activity	59,218	58,055	1,163	41,611	30,506	1,164	716	(14)	44	(463)
Foreign banks	25,022	25,022	-	11,516	9,617	-	-	-	-	-
Foreign governments	13,121	13,121	-	843	397	-	-	-	-	-
Total foreign activity	97,361	96,198	1,163	53,970	40,520	1,164	716	(14)	44	(463)
Total	486,810	476,963	9,847	384,199	280,314	9,808	4,333	(171)	(37)	(4,016)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, derivative assets and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 40,520, 32,785, -, 6,586, 17,471 million, respectively.
(b) Loans 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 reporting date corresponds with the credit rating for creating new loans in accordance with the Bank's policy.
(g) Including housing loans, extended to certain purchasing groups in the process of construction.

	December 31, 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 credit loss allowance
	NIS millions									
For activity of borrowers in Israel										
Public - Commercial										
Agriculture	2,168	1,975	193	2,165	1,863	192	93	23	9	(53)
Mining and quarrying	726	717	9	703	290	9	-	-	-	-
Industry	20,837	19,559	1,278	20,531	13,941	1,281	460	(189)	(202)	(521)
Construction and real estate - construction (g)	45,662	44,106	1,556	45,588	15,576	1,556	380	(7)	26	(327)
Construction and real estate - real estate activity	26,440	25,313	1,127	26,373	23,878	1,127	751	(303)	(65)	(426)
Electricity and water	4,849	4,483	366	4,569	3,060	366	269	23	4	(67)
Commerce	28,011	26,960	1,051	27,842	22,685	1,033	252	33	15	(315)
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)	(52)	(39)
Communications and computer services	5,707	5,495	212	5,445	4,067	208	197	(15)	(1)	(68)
Financial services	19,520	19,037	483	14,605	10,854	482	476	(82)	(23)	(218)
Business and other services	8,908	8,762	146	8,876	6,264	146	50	95	43	(140)
Public and community services	8,524	8,469	55	8,500	7,148	55	13	5	(3)	(48)
Total commercial (h)	181,811	174,853	6,958	175,502	118,722	6,932	3,204	(543)	(325)	(2,250)
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	293	(818)
Total public - activity in Israel	330,072	321,738	8,334	323,755	235,508	8,307	3,312	(95)	(7)	(3,530)
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)	(7)	(3,531)

(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) Loans 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 reporting date corresponds with the credit rating for creating new loans 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.)

	December 31, 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 credit loss allowance
	NIS millions									
For 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	1,311	1,269	42	824	463	42	42	(4)	(4)	(19)
Total commercial	57,788	56,762	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	58,768	57,691	1,077	41,642	29,942	1,079	669	(28)	54	(451)
Foreign banks	25,423	25,423	-	10,385	9,654	-	-	-	-	-
Foreign governments	14,740	14,740	-	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)	47	(3,982)

(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) Loans 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 reporting date corresponds with the credit rating for creating new loans 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 by total loans to a single borrower:

		September 30		December 31
		2017	2016	2016
Total credit to single borrower in NIS thousands		Balance of credit		
From	To	NIS millions		
-	300	**1,740**	1,497	1,512
300	600	**1,868**	1,745	1,762
600	1,200	**3,057**	3,124	3,141
1,200	2,000	**2,354**	2,433	2,332
2,000	4,000	**3,543**	3,582	3,468
4,000	8,000	**4,283**	4,250	4,432
8,000	20,000	**6,417**	6,494	6,547
20,000	40,000	**6,317**	5,662	5,826
40,000	200,000	**22,949**	22,127	21,264
200,000	400,000	**11,574**	12,196	10,501
400,000	800,000	**11,352**	12,227	11,995
800,000	1,200,000	**4,797**	1,964	2,787

Groups of borrowers

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

With effect from January 1, 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 December 31, 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 September 30, 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 September 30, 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**.**

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 20% of total capital for the purpose of calculating capital ratios, whichever the lower:

	September 30, 2017					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments(c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	NIS millions					
United States	**4,156**	**2,539**	**9,963**	**22,541**	**11,296**	**11,245**
United Kingdom	**176**	**3,178**	**3,964**	**6,048**	**1,938**	**4,110**
France	**4,578**	**1,673**	**249**	**-**	**-**	**-**
Switzerland	**-**	**626**	**581**	**80**	**62**	**18**
Germany	**1,278**	**3,278**	**425**	**-**	**-**	**-**
Others	**3,627**	**5,350**	**5,675**	**1,077**	**522**	**555**
Total exposure to foreign countries	**13,815**	**16,644**	**20,857**	**29,746**	**13,818**	**15,928**
Total exposure to LDC countries	**219**	**1,191**	**948**	**1,062**	**519**	**543**
Total exposure to GIIPS countries (d)	**329**	**15**	**314**	**-**	**-**	**-**

	September 30, 2017						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)		Cross-border balance sheet exposure	
	.					Maturity period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: Balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit	Up to one year	Over one year
Country	NIS millions						
United States	**27,903**	**1,291**	**468**	**6,504**	**-**	**4,532**	**12,126**
United Kingdom	**11,428**	**180**	**180**	**7,220**	**-**	**3,592**	**3,726**
France	**6,500**	**13**	**12**	**2,113**	**-**	**5,661**	**839**
Switzerland	**1,225**	**-**	**-**	**1,929**	**-**	**566**	**641**
Germany	**4,981**	**-**	**-**	**2,133**	**-**	**2,513**	**2,468**
Others	**15,207**	**115**	**108**	**2,880**	**-**	**7,656**	**6,996**
Total exposure to foreign countries	**67,244**	**1,599**	**768**	**22,779**	**-**	**24,520**	**26,796**
Total exposure to LDC countries	**2,901**	**100**	**96**	**2,022**	**-**	**390**	**1,968**
Total exposure to GIIPS countries (d)	**658**	**-**	**-**	**214**	**-**	**593**	**65**

See notes on page 52.

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.):

	September 30, 2016					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments(c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	NIS millions					
United States	8,707	2,937	9,794	24,692	13,230	11,462
United Kingdom	246	3,130	3,804	7,098	1,759	5,339
France	1,452	471	993	-	-	-
Switzerland	-	850	893	69	49	20
Germany	-	2,009	708	-	-	-
Others	2,041	5,014	4,923	1,173	631	542
Total exposure to foreign countries	12,446	14,411	21,115	33,032	15,669	17,363
Total exposure to LDC countries	292	1,068	740	1,150	630	520
Total exposure to GIIPS countries (d)	374	8	357	-	-	-

	September 30, 2016						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
	.					Maturity period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: Balance of impaired debts	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Up to one year	Over one year
Country	NIS millions						
United States	32,900	762	328	6,742	-	5,286	16,152
United Kingdom	12,519	226	225	3,357	-	2,927	4,253
France	2,916	6	6	1,073	-	1,881	1,035
Switzerland	1,763	-	-	384	-	1,081	662
Germany	2,717	-	-	187	-	1,756	961
Others	12,520	212	194	2,927	-	4,170	7,808
Total exposure to foreign countries	65,335	1,206	753	14,670	-	17,101	30,871
Total exposure to LDC countries	2,620	169	154	1,965	-	304	1,796
Total exposure to GIIPS countries (d)	739	-	-	175	-	537	202

See notes on page 52.

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.):

	December 31, 2016					
	Balance sheet exposure (a)					
	Cross-border balance sheet exposure			Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments(c)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	NIS millions					
United States	10,013	2,003	9,193	26,847	13,879	12,968
United Kingdom	252	2,534	3,656	6,838	1,567	5,271
France	810	1,350	304	-	-	-
Switzerland	-	576	888	62	29	33
Germany	-	2,201	354	-	-	-
Others	2,726	5,232	4,637	1,164	633	531
Total exposure to foreign countries	13,801	13,896	19,032	34,911	16,108	18,803
Total exposure to LDC countries	397	1,227	679	1,146	633	513
Total exposure to GIIPS countries (d)	372	10	328	-	-	-

	December 31, 2016						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
					Of which:	Maturity period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: Balance of impaired debts	Total off-balance sheet exposure	Problematic off-balance sheet credit risk	Up to one year	Over one year
Country	NIS millions						
United States	34,177	703	297	7,816	-	5,198	16,011
United Kingdom	11,713	230	229	3,609	-	2,501	3,941
France	2,464	6	6	2,168	-	1,434	1,030
Switzerland	1,497	-	-	1,949	-	726	738
Germany	2,555	-	-	1,990	-	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).
3. Exposure to foreign countries is shown on an ultimate risk basis.

Part B – At September 30, 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 639 million and relates to 10 countries. (At September 30, 2016, this totaled NIS 642 million and related to 10 countries, and, at December 31, 2016, this totaled NIS 656 million and related to 11 countries.)

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)]:

	September 30, 2017		
	Balance sheet credit risk (b)	Current off-balance sheet credit risk (c)	Current credit exposure
	NIS millions		
Current credit exposure to foreign financial institutions (d)			
AAA to AA-	**13,865**	**969**	**14,834**
A+ to A-	**4,091**	**631**	**4,722**
BBB+ to BBB-	**255**	**198**	**453**
BB+ to B-	**4**	**15**	**19**
Below B-	**12**	**1**	**13**
Unrated	**264**	**-**	**264**
Total current credit exposure to foreign financial institutions	**18,491**	**1,814**	**20,305**
Problematic credit risk	**-**	**-**	**-**

	September 30, 2016		
	Balance sheet credit risk (b)	Current off-balance sheet credit risk (c)	Current credit exposure
	NIS millions		
Current credit exposure to foreign financial institutions (d)			
AAA to AA-	16,365	2,445	18,810
A+ to A-	2,891	123	3,014
BBB+ to BBB-	284	347	631
BB+ to B-	3	24	27
Below B-	25	-	25
Unrated	255	7	262
Total current credit exposure to foreign financial institutions	19,823	2,946	22,769
Problematic credit risk	-	-	-

(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 284 million at September 30, 2017 (September 30, 2016 – NIS 430 million and December 31, 2016 - NIS 478 million).
(c) Mainly guarantees and undertakings for the provision of loans (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.

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

(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 284 million at September 30, 2017 (September 30, 2016 – NIS 430 million and December 31, 2016 - NIS 478 million).

(c) Mainly guarantees and undertakings for the provision of loans (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).
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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 three quarters of 2017, there was a fall in demand for housing loans in Israel, both for residential purposes and for investment purposes**.**

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 loan repayment capacity.

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:

	Nine months ended September 30		Change
	2017	2016	
	NIS millions		%
From Bank funds	**5,883**	7,932	(25.8)
From Ministry of Finance funds:			
Direct loans	**32**	10	220.0
Bullet loans	**9**	17	(47.1)
Total new loans	**5,924**	7,959	(25.6)
Refinanced loans	**833**	1,589	(47.6)
Total loans	**6,757**	9,548	(29.2)

Disclosure of housing loans

The following data relate 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:

	Loan portfolio balance	Rate of change
	NIS millions	%
December 31, 2015	80,136	9.1
December 31, 2016	78,183	(2.4)
September 30, 2017	**77,167**	**(1.3)**

In the first nine months 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 institution.

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 loan portfolio
	NIS millions	%	NIS millions	%	NIS millions	%	NIS millions
December 31, 2015	44,169	55.1	34,511	43.1	1,456	1.8	80,136
December 31, 2016	44,954	57.5	31,986	40.9	1,243	1.6	78,183
September 30, 2017	**45,391**	**58.8**	**30,726**	**39.8**	**1,050**	**1.4**	**77,167**

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					
December 31, 2015	13,093	12,477	31,076	22,034	1,456	80,136
December 31, 2016	14,178	11,792	30,776	20,194	1,243	78,183
September 30, 2017	**13,232**	**12,214**	**32,159**	**18,512**	**1,050**	**77,167**

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

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
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	Percentage of loans extended %							
Fixed – CPI-linked	**15.9**	15.1	16.7	18.3	17.6	18.9	19.4	18.6
Variable every 5 years and above – CPI-linked	**16.9**	16.8	16.2	14.2	13.4	12.1	13.9	13.3
Variable up to 5 years –CPI-linked	**0.1**	0.1	0.2	0.3	0.3	0.6	1.2	1.2
Fixed – unlinked	**28.5**	29.9	27.5	29.4	29.7	32.1	29.0	32.1
Variable every 5 years and above – unlinked	**6.4**	7.0	7.3	8.3	8.1	7.7	6.8	6.0
Variable up to 5 years – unlinked	**32.0**	30.9	31.5	29.0	30.5	28.3	29.4	28.3
Variable – foreign currency	**0.2**	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 55.3%, 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 31.8% 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		%
December 31, 2015	80,633	768	1.0
December 31, 2016	78,646	749	1.0
September 30, 2017	**77,609**	**734**	**0.9**

The credit loss allowance at September 30, 2017, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 442 million, representing 0.57% of the housing loan balance, compared with NIS 462 million at December 31, 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 5.9 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 528 thousand, compared with NIS 555 thousand in 2016 and NIS 623 thousand in 2015.

Development of new loan balances made in Israel, with a financing rate higher than 60%:

The development of new loans extended by the Bank at a financing rate higher than 60% (The financing rate is the ratio between the rate of loans 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 loan facility.) is as follows:

	2017	2016						2015
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	% (a)							
Between 60% and 70% (inclusive)	**19.8**	16.9	15.7	15.6	18.4	16.3	15.5	18.8
Between 70% and 80% (inclusive)	**15.9**	17.8	14.3	14.7	17.8	12.7	13.5	16.7
Above 80%	**0.08**	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 September 30, 2017 stands at 46.2%, 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 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 35.0% 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
December 31, 2015	46,461
December 31, 2016	49,987
September 30, 2017	**48,903**

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

Size of credit risk – NIS millions		**September 30, 2017**		December 31, 2016	
From -	To	NIS millions	Percentage of portfolio	NIS millions	Percentage of portfolio
-	25	**4,971**	**10.13%**	5,062	10.13%
25	50	**7,294**	**14.91%**	7,489	14.98%
50	75	**6,872**	**14.05%**	7,023	14.05%
75	100	**6,108**	**12.49%**	6,221	12.45%
100	150	**8,787**	**17.97%**	8,817	17.64%
150	200	**5,476**	**11.24%**	5,356	10.70%
200	300	**5,378**	**11.00%**	5,423	10.85%
Above 300		**4,017**	**8.21%**	4,596	9.20%

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

	September 30, 2017		December 31, 2016	
	Credit risk	%	Credit risk	%
	NIS millions	Overall credit	NIS millions	Overall credit
Current accounts and balance utilized in credit cards	**7,295**	**14.9%**	7,394	14.8%
Loans to purchase motor vehicles (on liens)	**2,432**	**5.0%**	2,585	5.2%
Loans and other	**21,252**	**43.4%**	21,775	43.5%
Total balance sheet credit risk	**30,979**	**63.3%**	31,754	63.5%
Unutilized current account facility	**6,832**	**14.0%**	6,992	14.0%
Unutilized credit card facility	**10,751**	**22.0%**	10,905	21.8%
Other off balance sheet credit risk	**341**	**0.7%**	336	0.7%
Total off-balance sheet credit risk	**17,924**	**36.7%**	18,233	36.5%
Overall total credit risk	**48,903**	**100.0%**	49,987	100.0%

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

	September 30	December 31	
	2017	2016	2015
	NIS millions		
Non-problematic credit	**30,656**	31,369	28,166
Unimpaired problematic credit	**213**	294	161
Impaired problematic credit	**110**	91	44
Total balance sheet credit risk	**30,979**	31,754	28,371
Problem credit risk as a percentage of total debts to private individuals	**1.0%**	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 January 1, 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 CET1 at the reporting date, according to market sectors:

	September 30 2017	December 31 2016
Market sector	NIS millions	
Mining and quarrying	**380**	377
Industry and factory	**462**	877
Supply of electricity, gas, steam and air-conditioning	**688**	601
Construction and real estate	**-**	409
Commerce	**516**	541
Transportation and storage	**233**	434
Financial services	**496**	596
Total	**2,775**	3,835

Market risk

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

The Bank applies the directives of the 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 risk 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 risk are managed on a routine basis at the Group level. Subsidiaries abroad determine policy for the management of market risk 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 risk 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 of Israel debentures, 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 risk to which the Bank is exposed -

A. Interest rate exposure

Interest rate 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 rate exposure policy restricts the extent of exposure to possible changes in interest rates on the potential erosion of economic value[1] and financing profit for the coming year.

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[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.

Interest rate risk is measured and managed on the basis of various behavioral assumptions with regard to the maturity 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 rate risk management, inter alia, due to the significant increase in balances in recent years.

The measurement of exposure to changes in interest rate 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 rate at the Group level (before tax and in NIS millions) *:

	Potential change in economic value as a result of scenario								
	September 30, 2017			September 30, 2016			December 31, 2016		
Scenario	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	**(403)**	**304**	**(41)**	(122)	(97)	(2)	(12)	(227)	10
Trading portfolio	**(83)**	**81**	**(9)**	(106)	100	(10)	37	(45)	4
In foreign currency:									
Banking portfolio	**170**	**(256)**	**20**	(53)	(29)	(2)	(42)	(143)	-
Trading portfolio	**77**	**87**	**3**	-	(43)	1	52	(49)	5

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

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

	Exposure in Israeli currency			Exposure in foreign currency		
	September 30, 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 *	**1,403**	**(1,859)**	**158**	**(321)**	**426**	**(36)**
	September 30, 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 *	1,213	(1,629)	140	(457)	348	(43)
	December 31, 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 September 30, 2017 was estimated to be a decrease in the value of the assets amounting to NIS 111 million (NIS 120 million at September 30, 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 rates

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:

	September 30, 2017					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**279,458**	**45,507**	**60,647**	**16,185**	**9,560**	**411,357**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**265,030**	**6,526**	**197,487**	**62,375**	**26,957**	**558,375**
Financial liabilities (a)	**238,255**	**49,740**	**91,760**	**12,813**	**6,755**	**399,323**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**283,322**	**11,500**	**168,010**	**66,151**	**30,506**	**559,489**
Net fair value of financial instruments	**22,911**	**(9,207)**	**(1,636)**	**(404)**	**(744)**	**10,920**

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

	December 31, 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:

	September 30, 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%	**21,941**	**(7,544)**	**(2,179)**	**(402)**	**(751)**	**11,065**	**145**	**1.33**
Immediate corresponding increase of 0.1%	**22,811**	**(9,022)**	**(1,689)**	**(405)**	**(745)**	**10,950**	**30**	**0.27**
Immediate corresponding decrease of 1%	**23,856**	**(11,361)**	**(1,163)**	**(381)**	**(736)**	**10,215**	**(705)**	**(6.46)**

	September 30, 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%	20,257	(7,180)	(1,182)	(206)	(512)	11,177	282	2.59
Immediate corresponding increase of 0.1%	20,814	(8,524)	(632)	(194)	(511)	10,953	58	0.53
Immediate corresponding decrease of 1%	21,380	(10,701)	(78)	(180)	(508)	9,913	(982)	(9.01)

	December 31, 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 September 30, 2017 is estimated to be a decrease in the value of the assets amounting to NIS 111 million (NIS 120 million at September 30, 2016 and NIS 117 million at December 31, 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 which: the effect of compound financial assets: immediate corresponding increase of 1% - NIS (276) million (September 30, 2016 NIS (276) million and December 31, 2016 NIS (345) million), an immediate corresponding decrease of 1% - NIS 195 million (September 30, 2016 – NIS 179 million and December 31, 2016 - NIS 171 million).
An immediate corresponding increase of 2% - NIS (578) million (December 31, 2016 – NIS (701) million), an immediate corresponding decrease of 2% - NIS 310 million (December 31, 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

	September 30, 2017												September 30, 2016			December 31, 2016		
	On demand up to one month	One month to three months	Three months to one year	One year to three years	Three years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
	NIS millions										%	Years		%	Years		%	Years
Israeli currency - unlinked																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	**201,925**	**9,882**	**29,167**	**18,543**	**8,450**	**8,272**	**2,109**	**531**	**579**	**279,458**	**3.18**	**0.60**	265,372	2.65	0.63	278,940	3.30	0.56
Derivative financial instruments (excluding option	**46,183**	**75,916**	**44,053**	**40,968**	**23,866**	**25,591**	**354**	**60**	**-**	**256,991**	**-**	**1.64**	248,030	-	1.53	247,093	-	1.50
Options (in terms of the underlying asset) (c)	**861**	**1,410**	**3,497**	**2,180**	**22**	**36**	**33**	**-**	**-**	**8,039**	**-**	**-**	4,964	-	-	5,076	-	-
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Total fair value	**248,969**	**87,208**	**76,717**	**61,691**	**32,338**	**33,899**	**2,496**	**591**	**579**	**544,488**	**3.18**	**1.09**	518,366	2.65	1.06	531,109	3.30	0.99
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	**194,362**	**6,410**	**16,112**	**14,595**	**4,213**	**2,504**	**59**	**-**	**-**	**238,255**	**0.59**	**0.31**	222,530	0.70	0.45	231,563	1.00	0.42
Derivative financial instruments (excluding option	**53,152**	**82,845**	**47,279**	**41,113**	**25,578**	**25,497**	**368**	**26**	**-**	**275,858**	**-**	**1.53**	272,331	-	1.45	273,646	-	1.44
Options (in terms of the underlying asset) (c)	**673**	**1,745**	**3,482**	**1,130**	**356**	**6**	**48**	**-**	**-**	**7,440**	**-**	**-**	2,593	-	-	2,905	-	-
Off-balance sheet financial instruments	**-**	**-**	**24**	**-**	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**0.50**	42	-	0.50	24	-	0.50
Total fair value	**248,187**	**91,000**	**66,897**	**56,838**	**30,147**	**28,007**	**475**	**26**	**-**	**521,577**	**0.59**	**0.95**	497,496	0.70	1.00	508,138	1.00	0.97
Financial instruments, net																		
Exposure to interest rate changes in the segment	**782**	**(3,792)**	**9,820**	**4,853**	**2,191**	**5,892**	**2,021**	**565**										
Accumulated exposure in the segment	**782**	**(3,010)**	**6,810**	**11,663**	**13,854**	**19,746**	**21,767**	**22,332**										
Israeli currency – linked to the CPI																		
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial assets (a)	**535**	**2,516**	**10,525**	**12,699**	**10,016**	**4,857**	**2,506**	**1,816**	**37**	**45,507**	**2.55**	**3.88**	51,873	2.10	3.90	48,232	2.44	3.82
Derivative financial instruments (excluding option	**4**	**45**	**1,882**	**2,450**	**1,001**	**1,144**	**-**	**-**	**-**	**6,526**	**-**	**2.65**	7,105	-	2.80	6,790	-	2.65
Options (in terms of the underlying asset)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Off-balance sheet financial instruments (c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Total fair value	**539**	**2,561**	**12,407**	**15,149**	**11,017**	**6,001**	**2,506**	**1,816**	**37**	**52,033**	**2.55**	**3.72**	58,978	2.10	3.77	55,022	2.44	3.68
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	**618**	**2,009**	**4,779**	**13,634**	**7,313**	**3,325**	**877**	**-**	**-**	**32,555**	**0.61**	**2.95**	42,433	1.11	2.87	38,888	0.82	2.91
Derivative financial instruments (excluding option	**484**	**654**	**2,603**	**4,568**	**1,511**	**1,551**	**-**	**-**	**-**	**11,371**	**-**	**2.52**	8,634	-	2.75	8,391	-	2.78
Options (in terms of the underlying asset) (c)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	-
Off-balance sheet financial instruments	**-**	**-**	**129**	**-**	**-**	**-**	**-**	**-**	**-**	**129**	**-**	**-**	119	-	-	135	-	-
Total fair value	**1,102**	**2,663**	**7,511**	**18,202**	**8,824**	**4,876**	**877**	**-**	**-**	**44,055**	**0.61**	**2.83**	51,186	1.11	2.84	47,414	0.82	2.88
Financial instruments, net																		
Exposure to interest rate changes in the segment	**(563)**	**(102)**	**4,896**	**(3,053)**	**2,193**	**1,125**	**1,629**	**1,816**										
Accumulated exposure in the segment	**(563)**	**(665)**	**4,231**	**1,178**	**3,371**	**4,496**	**6,125**	**7,941**										

(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 1,204 million at September 30, 2017.
(b) Weighted average according to fair value of effective duration.
(c) Average duration less than 0.05 years.

Exposure to interest rate fluctuations (contd.)

	September 30, 2017												September 30, 2016			December 31, 2016		
	On demand up to one month	One month to three months	Three months to one year	One year to three years	Three years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
	NIS millions										(%)	(Years)		(%)	(Years)		(%)	(Years)
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)	39,068	18,504	9,416	7,300	4,858	5,200	903	29	1,114	86,392	2.76	1.16	88,391	1.62	1.30	85,885	2.48	1.26
Of which; compound financial instruments	2,912	784	372	1,203	1,737	1,703	570	28	-	9,309	2.60	3.49	10,276	2.29	2.95	10,029	2.83	3.44
Derivative financial instruments (excluding options)	76,611	84,780	68,446	20,180	7,559	17,739	856	103	-	276,274	-	1.02	324,348	-	0.84	291,443	-	0.96
Options (in terms of the underlying asset) (d)	1,792	3,091	4,834	73	399	54	302	-	-	10,545	-	-	6,571	-	-	6,919	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value before complex financial assets	117,471	106,375	82,696	27,553	12,816	22,993	2,061	132	1,114	373,211	2.76	1.03	419,310	1.62	0.92	384,247	2.48	1.01
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments																		
Financial liabilities (a)	86,431	8,226	12,406	1,848	275	212	39	1	1,515	110,953	1.17	0.16	111,538	1.54	0.20	113,337	1.08	0.18
Derivative financial instruments (excluding options)	53,696	79,961	69,683	19,786	9,235	20,094	618	451	-	253,524	-	1.24	299,876	-	1.03	263,660	-	1.19
Options (in terms of the underlying asset) (d)	1,544	2,835	3,763	1,715	215	120	931	-	-	11,123	-	-	8,764	-	-	9,090	-	-
Off-balance sheet financial instruments	-	-	20	-	-	-	-	-	-	20	-	0.50	7	-	0.50	14	-	0.50
Total fair value	141,671	91,022	85,872	23,349	9,725	20,426	1,588	452	1,515	375,620	1.17	0.89	420,185	1.54	0.79	386,101	1.08	0.87
Financial instruments, net																		
Exposure to interest rate fluctuations	(24,200)	15,353	(3,176)	4,204	3,091	2,567	473	(320)										
Accumulated exposure in the segment	(24,200)	(8,847)	(12,023)	(7,819)	(4,728)	(2,161)	(1,688)	(2,008)										
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)	241,528	30,902	49,108	38,542	23,324	18,329	5,518	2,376	5,898	415,525	2.86	1.07	408,168	2.21	1.20	416,301	2.78	1.09
Derivative financial instruments (excluding options)	122,798	160,741	114,381	63,598	32,426	44,474	1,210	163	2,133	541,924	-	1.34	580,920	-	1.16	547,007	-	1.23
Options (in terms of the underlying asset) (d)	2,653	4,501	8,331	2,253	421	90	335	-	437	19,021	-	-	11,535	-	-	12,132	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	366,979	196,144	171,820	104,393	56,171	62,893	7,063	2,539	8,468	976,470	2.86	1.20	1,000,623	2.21	1.16	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)	281,411	16,645	33,297	30,077	11,801	6,041	975	1	2,976	383,224	0.69	0.49	376,976	0.97	0.65	385,128	0.93	0.60
Derivative financial instruments (excluding options)	107,332	163,460	119,565	65,467	36,324	47,142	986	477	1,870	542,623	-	1.41	582,076	-	1.25	547,167	-	1.34
Options (in terms of the underlying asset) (d)	2,217	4,580	7,245	2,845	571	126	979	-	80	18,643	-	-	11,383	-	-	11,995	-	-
Off-balance sheet financial instruments	-	-	173	-	-	-	-	-	181	354	-	0.08	352	-	0.11	353	-	0.06
Total fair value	390,960	184,685	160,280	98,389	48,696	53,309	2,940	478	5,107	944,844	0.69	1.01	970,787	0.97	1.00	944,643	0.93	1.02
Financial instruments, net																		
Exposure to interest rate fluctuations	(23,981)	11,459	11,540	6,004	7,475	9,584	4,123	2,061										
Accumulated exposure in the segment	(23,981)	(12,522)	(982)	5,022	12,497	22,081	26,204	28,265										
In addition, exposure to interest rates in respect of liabilities for employee benefits, gross - pension and severance pay	52	101	456	1,247	1,470	3,752	5,627	4,855	-	17,560	2.21	15.52	16,892	2.42	15.06	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 1,204 million at September 30, 2017.

(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. See Note 15a.
   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 the average duration of liabilities, early maturities of mortgages and an estimate of deposit withdrawals of the public, respectively, have been taken into account, excluding the effect of the original average duration models as follows: in the index-linked sector – the average duration of the assets is 4.84 years and 2.90 years, and the IRR gap is 1.94%. In the unlinked sector, the average duration of the assets is 1.09 years, an IRR gap of 2.59%, while the effect on the average duration of liabilities is low. Furthermore, in interest rate exposure management, the Bank regards some of the Israeli currency and foreign currency balances as a long-term liability (ranging from one year to ten years) and not up to one month, as required by the Reporting Regulations.
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.

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 liquidity risk management policy 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.

Leumi routinely monitors its liquidity position using indices intended to warn of changes in the liquidity position, inter alia, be means of a regulatory model and internal models that were developed in Leumi pursuant to the directives of the Bank of Israel, and in accordance with generally accepted standards around the world.

The liquidity coverage ratio of the Bank (the regulatory model) is 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.

Operational Risk

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

Pursuant to the Law for the Amendment of the Income Tax Ordinance (Number 227) and the Income Tax Regulations (Implementation of the FATCA Agreement), 2016, the Bank is required to take steps to identify customers and to furnish information to the Israeli Tax Authorities regarding U.S. customers, with the purpose of passing the information on to the U.S. tax authorities.

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)

The OECD organization has 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 standard was published. The regulations for implementing the standard have not yet been published.

Leumi is prepared for complying with the requirements of the legislation. The offices of Bank Leumi in the UK and in Romania commenced implementing the standard on January 1, 2016 pursuant to the provisions of local regulation to which they are subject.

Legal Risk

This chapter is set out in greater detail in the 2016 Board of Directors and Management Report (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.

Since the beginning of the year, there have been no significant changes in exposures.

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 2016 Board of Directors and Management Report.

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 December 31, 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 December 31, 2016 were as follows: credit loss allowance 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 September 30, 2017, the balance of accumulated OCI in respect of employee benefits was a negative balance of NIS 2,790 million, after the effect of tax, a decrease of NIS 621 million after the effect of tax compared with December 31, 2016.

The balance of the liability for employee benefits at September 30, 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 168 million less than the actual liability balance.

The computation of the capital requirements pursuant to the Basel III provisions will be made in accordance with the transitional provisions established in Proper Conduct of Banking Business Directive No. 299, which provides that the balance of OCI or loss arising from adjustments in respect of employee benefits, and the amount carried directly to retained earnings as of January 1, 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 January 1, 2015, and a further 20% on January 1, of each year, until full implementation commencing January 1, 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

Bank Management, 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.

Changes in internal control

During the quarter ended September 30, 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-September 2017, the Board of Directors held 19 plenary meetings and 52 committee meetings.

At the Meeting of the Board of Directors that took place on November 20, 2017, it was decided to approve and publish the audited consolidated financial statements of the Group at September 30, 2017 and for the period ended on that date.

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

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

November 20, 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 September 30, 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 Bank's financial condition, results of operations and changes in shareholders' equity and cash flow for the dates and periods covered by the Report.

4. The Bank's other certifying officers and I 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 the accepted accounting principles and directives of the Supervisor of Banks and her 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. The Bank's other certifying officers and I have disclosed to the Bank's Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors, 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, who have a significant role in the Bank's internal control over financial reporting, were involved.

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

November 20, 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 September 30, 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 Bank's financial condition, results of operations and changes in shareholders' equity and cash flow for the dates and periods covered by the Report.

4. The Bank's other certifying officers and I 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 the accepted accounting principles and directives of the Supervisor of Banks and her 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. The Bank's other certifying officers and I have disclosed to the Bank's Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors, 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, who have a significant role in the Bank's internal control over financial reporting, were involved.

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

November 20, 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 September 30, 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 Bank's financial condition, results of operations and changes in shareholders' equity and cash flow for the dates and periods covered by the Report.

4. The Bank's other certifying officers and I 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 the accepted accounting principles and directives of the Supervisor of Banks and her 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. The Bank's other certifying officers and I have disclosed to the Bank's Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors, 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, who have a significant role in the Bank's internal control over financial reporting, were involved.

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

November 20, 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 September 30, 2017 and the condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flow for the nine-month and three-month periods ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for these interim periods 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 a claim made against the Bank including a petition for its approval as a class action.

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

November 20, 2017

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Profit and Loss
for the periods ended September 30, 2017

		Three months ended September 30		Nine months ended September 30		Year ended December 31
		2017	2016	**2017**	2016	2016
		Unaudited		Unaudited		Audited
	Note	NIS millions				
Interest income	**2**	**2,294**	2,607	**7,500**	7,236	9,552
Interest expenses	**2**	**376**	637	**1,544**	1,577	2,026
Net interest income	**2**	**1,918**	1,970	**5,956**	5,659	7,526
Provision for credit losses	**6, 13**	**3**	106	**146**	(171)	(125)
Net interest income, after expenses in respect of credit losses		**1,915**	1,864	**5,810**	5,830	7,651
Noninterest income						
Noninterest financing income	**3**	**222**	499	**674**	1,057	1,282
Commissions		**1,043**	996	**3,068**	2,973	3,967
Other income		**41**	19	**71**	54	159
Total noninterest income		**1,306**	1,514	**3,813**	4,084	5,408
Operating and other expenses						
Salaries and related expenses		**1,264**	1,354 (a)	**3,831**	4,142 (a)	5,422
Maintenance and depreciation of buildings and equipment		**406**	435 (a)	**1,239**	1,254 (a)	1,697
Other expenses		**406**	166 (a)	**1,076**	904 (a)	1,461
Total operating and other expenses		**2,076**	1,955	**6,146**	6,300	8,580
Profit before tax		**1,145**	1,423	**3,477**	3,614	4,479
Tax expense		**376**	514	**1,220**	1,292	1,717
Profit after taxes		**769**	909	**2,257**	2,322	2,762
Bank's share in profits of associate companies after tax		**60**	21	**85**	56	66
Net income :						
Before attribution to non-controlling interests		**829**	930	**2,342**	2,378	2,828
Due to non-controlling interests		**(9)**	(11)	**(24)**	(30)	(37)
Due to shareholders of the Bank		**820**	919	**2,318**	2,348	2,791
Basic and diluted earnings per share (in NIS)						
Basic earnings due to the Bank's shareholders		**0.52**	0.60	**1.50**	1.55	1.85
Diluted earnings due to the Bank's shareholders		**0.52**	0.60	**1.50**	1.55	1.84

(a) Reclassified.

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

David Brodet
Chairman of the
Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

Omer Ziv
First Executive Vice President,
Head of Finance Division

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

Date of approval of the financial statements: November 20, 2017

Bank Leumi of Israel Ltd. and its Consolidated Companies
Condensed Consolidated Statement of Comprehensive Income
for the periods ended September 30, 2017

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited		Unaudited		Audited
	NIS millions				
Net income before attribution to non-controlling interests	**829**	930	**2,342**	2,378	2,828
Less net income due to non-controlling interests	**9**	11	**24**	30	37
Net income due to the Bank's shareholders	**820**	919	**2,318**	2,348	2,791
Other comprehensive income (loss) before taxes:					
Adjustments for presenting securities available for sale at fair value, net	**259**	(346)	**256**	210	(281)
Adjustments for translation of financial statements, net (a), after effect of hedges (b)	**2**	(14)	**(32)**	(24)	(11)
Adjustments of liabilities in respect of employee benefits (c)	**(806)**	787	**(943)**	(918)	(928)
Bank's share in other comprehensive income (loss) of associate companies	**(13)**	(14)	**(24)**	(15)	(20)
Other comprehensive income (loss) before taxes	**(558)**	413	**(743)**	(747)	(1,240)
Relevant tax effect	**185**	(168)	**160**	224	376
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(373)**	245	**(583)**	(523)	(864)
Less other comprehensive income due to non-controlling interests	-	-	-	-	-
Other comprehensive income (loss) due to shareholders of the Bank, after taxes	**(373)**	245	**(583)**	(523)	(864)
Other comprehensive income before attribution to non-controlling interests	**456**	1,175	**1,759**	1,855	1,964
Less other comprehensive income due to non-controlling interests	**9**	11	**24**	30	37
Other comprehensive income due to the Bank's shareholders	**447**	1,164	**1,735**	1,825	1,927

(a) Adjustments from translating financial statements of foreign operations whose functional currency is different from the Bank's functional currency.

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

(c) Mostly reflects adjustments due to actuarial estimates for the end of defined benefit plans and deducting sums previously recorded as OCI.

See also Note 4 regarding accumulated other comprehensive income (loss).

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 September 30, 2017

	Note	**September 30 2017**	September 30 2016	December 31 2016
		Unaudited		Audited
		NIS millions		
Assets				
Cash and deposits with banks		**66,134**	59,067	74,757
Securities (a)(b)	**5**	**82,098**	82,493	77,201
Securities borrowed or purchased under agreements to resell		**872**	896	1,284
Loans to the public	**6, 13**	**269,630**	267,895	265,450
Allowance for credit losses	**6, 13**	**(3,272)**	(3,527)	(3,493)(d)
Loans to the public, net		**266,358**	264,368	261,957
Loans to governments		**695**	623	642
Investments in associate companies		**923**	897	901
Buildings and equipment		**2,931**	3,044	3,147
Intangible assets and goodwill		**16**	17	17
Derivative assets	**11**	**10,954**	11,630	10,654
Other assets (a)		**8,251**	8,723	8,043(d)
Total assets		**439,232**	431,758	438,603
Liabilities and equity				
Deposits from the public	**7**	**350,201**	336,851	346,854
Deposits from banks		**4,460**	3,589	3,394
Deposits from governments		**539**	661	900
Securities lent or sold under repurchase agreements		**637**	553	539
Bonds, debentures and subordinated notes		**16,407**	23,765	22,640
Derivative liabilities	**11**	**11,275**	12,634	10,677
Other liabilities (a)(b)		**22,539**	22,117	21,885
Total liabilities		**406,058**	400,170	406,889
Equity due to the Bank's shareholders	**9**	**32,793**	31,228	31,347
Non-controlling interests		**381**	360	367
Total equity		**33,174**	31,588	31,714
Total liabilities and equity		**439,232**	431,758	438,603

(a) For details regarding amounts measured at fair value, see Note 15A.
(b) For details regarding securities pledged to lenders, see Note 5.
(c) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 492 million (at September 30, 2016 – NIS 487 million, at December 31, 2016 – NIS 488 million).
(d) 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 Statement of Changes in Shareholders' Equity
for the period ended September 30, 2017

	Three months ended September 30 , 2017 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance at June 30, 2017	7,110	1,729	38	8,877	(2,522)	26,166	32,521	372	32,893
Net income for the period	-	-	-	-	-	820	820	9	829
Other comprehensive loss, net, after tax	-	-	-	-	(373)	-	(373)	-	(373)
Dividend paid	-	-	-	-	-	(175)	(175)	-	(175)
Balance at September 30, 2017	**7,110**	**1,729**	**38**	**8,877**	**(2,895)**	**26,811**	**32,793**	**381**	**33,174**

(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 (contd.)
for the period ended September 30, 2017

	Three months ended September 30 , 2016 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total capital
	NIS millions								
Balance at June 30, 2016	7,109	1,722	36	8,867	(2,216)	23,413	30,064	349	30,413
Net income for the period	-	-	-	-	-	919	919	11	930
Other comprehensive loss, net after tax	-	-	-	-	245	-	245	-	245
Balance at September 30, 2016	7,109	1,722	36	8,867	(1,971)	24,332	31,228	360	31,588

(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 (contd.)
for the period ended September 30, 2017

	Nine months ended September 30 , 2017 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance at December 31, 2016 (Audited)	7,109	1,722	36	8,867	(2,312)	24,792	31,347	367	31,714
Net income for the period	**-**	**-**	**-**	**-**	**-**	**2,318**	**2,318**	**24**	**2,342**
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	**-**	**-**	**-**	**-**	**(583)**	**-**	**(583)**	**-**	**(583)**
Dividend paid by consolidated companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(10)**	**(10)**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(299)**	**(299)**	**-**	**(299)**
Balance at September 30, 2017	**7,110**	**1,729**	**38**	**8,877**	**(2,895)**	**26,811**	**32,793**	**381**	**33,174**

(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 (contd.)
for the period ended September 30, 2017

	Nine months ended September 30 , 2016 (Unaudited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance at December 31, 2015 (Audited)	7,059	1,129	43	8,231	(1,448)	21,984	28,767	340	29,107
Net income for the period	-	-	-	-	-	2,348	2,348	30	2,378
Issuance of shares	50	593	(7)	636	-	-	636	-	636
Other comprehensive income (loss), net, after tax	-	-	-	-	(523)	-	(523)	-	(523)
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Balance at September 30, 2016	7,109	1,722	36	8,867	(1,971)	24,332	31,228	360	31,588

(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 (contd.)
for the period ended September 30, 2017

	For the year ended December 31, 2016 (Audited)								
		Capital reserves							
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance at December 31, 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
Issuance of shares	50	593	(7)	636	-	-	636	-	636
Other comprehensive income (loss), net, after tax	-	-	-	-	(864)	-	(864)	-	(864)
Dividend paid by consolidated companies	-	-	-	-	-	-	-	(10)	(10)
Adjustments in respect of associate companies, net	-	-	-	-	-	17	17	-	17
Balance at December 31, 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 September 30, 2017

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Cash flows generated by operating activity					
Net income for the period	**829**	930	**2,342**	2,378	2,828
Adjustments:					
Group share in undistributed profits of associate companies (a)	**(59)**	(23)	**(60)**	(29)	(28)
Depreciation of buildings and equipment (including impairment)	**155**	172	**497**	492	663
Provision for credit losses	**3**	106	**146**	(171)	(125)
Gains from sale of loan portfolio	**(9)**	(31)	**(9)**	(45)	(44)
Gains on sale of securities available for sale	**(57)**	(294)	**(170)**	(859)	(857)
Realized and unrealized gains (losses) from adjustment to fair value of securities held for trading	**(147)**	107	**35**	(14)	116
Gains on realization of investment in associate companies	**-**	(35)	**-**	(35)	(7)
Gains on realization of buildings and equipment	**(16)**	-	**(18)**	-	(66)
Provision for impairment of shares available for sale	**-**	6	**-**	7	6
Expenses deriving from share-based payment transactions	**-**	-	**-**	-	10
Deferred taxes, net	**(134)**	86	**(203)**	(454)	43
Severance pay and pension - increase (decrease) in surplus of provision over amount funded	**31**	176 (b)	**(109)**	380 (b)	261 (b)
Interest received (not yet received) in excess of accumulated interest for debentures available for sale	**32**	(65)	**94**	219	312
Interest not yet paid for debentures and subordinated notes	**97**	252	**545**	621	782
Effect of exchange-rate differences on balances of cash and cash equivalents	**(261)**	325	**219**	543	591
Other, net	**(2)**	6	**(3)**	4	-
Net change in current assets:					
Deposits in banks	**448**	190	**(204)**	(1,139)	(207)
Loans to the public	**(1,694)**	607	**(6,067)**	(3,812)	(2,986) (b)
Loans to governments	**(76)**	(143)	**(53)**	(170)	(189)
Securities borrowed or purchased under agreements to resell	**159**	580	**412**	868	480
Derivative assets	**408**	1,368	**(303)**	(381)	595
Securities held for trading	**3,842**	(2,144)	**2,195**	(1,137)	3,322
Other assets	**(217)**	(320)	**(170)**	(398)	(179) (b)
Net change in current liabilities:					
Deposits from banks	**122**	(504)	**1,351**	(186)	(447)
Deposits from the public	**7,233**	(2,674)	**5,168**	8,885	18,358
Deposits from governments	**(91)**	(13)	**(307)**	(71)	156
Securities lent or sold under agreements to repurchase	**393**	(236)	**98**	(385)	(399)
Derivative liabilities	**(827)**	(1,073)	**607**	1,500	(314)
Other liabilities	**36**	201	**(107)**	719 (b)	369
Net cash generated by operating activity	**10,198**	(2,443)	**5,926**	7,330	23,044

(a) Less dividend 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 (contd.)
for the period ended September 30, 2017

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Cash flows generated by investment activity					
Acquisition of securities available-for-sale	**(31,374)**	(17,990)	**(73,419)**	(77,465)	(92,212)
Proceeds from sale of available-for-sale securities	**11,416**	10,386	**30,921**	30,116	35,438
Proceeds from redemption of available-for-sale securities	**12,909**	12,083	**35,290**	35,996	45,457
Proceeds from redemption of bonds held to maturity	**-**	-	**80**	-	-
Proceeds from sale of loan portfolios	**65**	468	**65**	716	2,723
Proceeds from realization of investment in associate companies (a)	**6**	68	**15** (a)	68	73
Acquisition of buildings and equipment	**(144)**	(133)	**(463)**	(489)	(634)
Proceeds from realization of buildings and equipment	**29**	4	**38**	9	99
Proceeds from realization of assets transferred to Group ownership	**-**	-	**2**	2	2
Central Severance Payment Fund	**50**	(10) (b)	**347**	20 (b)	200 (b)
Net cash from investment activity (for investment activity)	**(7,043)**	4,876	**(7,124)**	(11,027)	(8,854)
Cash flows generated by financing activity					
Issue of debentures and subordinated notes	**-**	-	**-**	4,442	4,442
Redemption of debentures and subordinated notes	**(6,027)**	(638)	**(6,778)**	(2,606)	(3,892)
Dividend paid to shareholders	**(175)**	-	**(299)**	-	-
Dividend paid to external shareholders of consolidated companies	**-**	-	**(10)**	(10)	(10)
Net cash from financing activity (for financing activity)	**(6,202)**	(638)	**(7,087)**	1,826	540
Increase (decrease) in cash and cash equivalents	**(3,047)**	1,795	**(8,285)**	(1,871)	14,730
Balance of cash and cash equivalents at beginning of period	**66,551**	54,246	**72,269**	58,130	58,130
Effect of exchange rate differences on balances of cash and cash equivalents	**261**	(325)	**(219)**	(543)	(591)
Balance of cash and cash equivalents at end of period	**63,765**	55,716	**63,765**	55,716	72,269

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

Interest and tax paid and/or received and dividends received

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited		Unaudited		Audited
	NIS millions				
Interest received	**2,414**	2,411	**7,589**	7,370	9,864
Interest paid	**(1,407)**	(799)	**(1,825)**	(2,140)	(3,041)
Dividends received	**6**	-	**40**	34	48
Tax paid on income	**(491)**	(494)	**(1,392)**	(1,144)	(1,629)

(a) In 2017 constitutes a part of the update of contingent consideration in respect of investments in associate companies.
(b) Reclassified.

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

For the nine months ended September 30, 2017:

On January 1, 2017, a balance of NIS 957 million was reclassified from the "Securities available-for-sale" portfolio to the "Bonds held-to-maturity" portfolio.

See Note 1A.3.

On April 6, 2017, the Bank issued PSU units and, as a result, NIS 10 million was reclassified from "Other liabilities" to "Share-based payment transactions fund."

See Note 9A.

For the year ended December 31, 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 the conversion of rights accumulated for the benefit of employees in the amount of NIS 636 million.

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

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Note 1 - Significant Accounting Policies

A. Basis for preparation of the Financial Statements

1. Reporting principles

The condensed consolidated interim financial statements at September 30, 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 December 31, 2016, except as described in paragraph B below. These reports are to be read in conjunction with the annual financial statements at December 31, 2016 and the accompanying notes. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on November 20, 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, 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 its decisions on past experience, various facts, external factors, and 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. **Allocation of securities**

As of January 1, 2017, the Bank was permitted to renew classification of bonds held to redemption. As a result, the Bank classified bonds from the available-for-sale securities portfolio to the held-to-maturity bond portfolio, belonging to a foreign subsidiary, in 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

As of the reporting periods commencing January 1, 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 March 21, 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. The capability of the entity to be independent is to be taken into account.

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 Correction 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 regarding "Events After the Reporting Period" will be replaced by the provisions of Sub-Topic 855-10.

The instructions of the circular are to be implemented as of January 1, 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 January 1, 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 October 22, 2015, a circular 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, *inter alia,* the rules regarding presentation, measurement and disclosure 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 October 13, 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 December 31, 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 (ability and 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 reinvested 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) to be utilized. The amount of 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 capital.
- A deferred tax asset will be recognized only if it appears that the temporary difference will be reversed in the foreseeable future. Upon 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 capital.

The Bank implements these directives as of January 1, 2017.

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

3. New standard update on share-based payment

On March 30, 2016, the US Financial Accounting Standards Board published an update to Accounting Standard 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 capital, 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 when they reduce the taxable income, as previously acceptable. 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 Cash Flow Report. 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 OCI 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 replacing a derivative contract on existing hedge accounting relationships**

In March 2016, the US Financial Accounting Standards Board published Standard Update 2016-05 on Codification Topic 815 - Derivatives and Hedging, determining 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.

6. **FAQ on the implementation of the Public Reporting Directives on the subject of impaired debts, credit risk and allowance for credit losses**

On February 20, 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.

The circular is to be applied from July 1, 2017 onwards. Implementation of the circular did not have any material effect on the financial statements.

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

1. **Recognition of income**

On January 11, 2015, a circular was issued on the adoption of updated accounting principles 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 lists a five-step model to determine income recognition and measurement. Furthermore, the Standard lists the rules for presenting said income and the costs deriving therefrom.

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 directives of the Bank of Israel 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 January 1, 2018, with the cumulative effect charged to capital. The implementation of the circular's is not expected to have a material impact.

2. Reporting by banking corporations in accordance with US GAAP

On October 13, 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 US 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." The main change refers to significant parts of fixed assets that have differing useful life. The entity is allowed but not required to deal with these parts as separate items of fixed assets.

- Earnings per share in accordance with Codification Topic 260 on "Earnings per Share."

- Cash flow report in accordance with Codification Topic 230-10 on " Cash Flow Report." The main change relates to the manner of presentation of loan-granting activity and the provision of deposits. Loans granted by a financial institution will generally be classified as investment activity, unless they are 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.

- Capitalizing 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 January 1, 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.

3. 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 January 1, 2020.

4. **Standard 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 January 1, 2018. Earlier application is permitted.

5. **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 January 1, 2019.

6. **Regulatory update on derivatives and hedge accounting**

In August 2017, the US Accounting Standards Board published Standard Update No. 2017-12, which updates the presentation and measurement principles in Section 815 of the Codification on derivatives and hedge accounting.
The update is intended to adapt the implementation of hedge accounting with the entity's risk management strategy. It also updates the presentation and disclosure requirements as well as the manner in which hedge effectiveness is assessed so that more hedges are eligible under hedge accounting. This is mainly by reducing the complexity of fair value hedges, eliminating the requirement to measure and report separately the lack of effectiveness in certain hedges, easing documentation requirements, and the like.
The Supervisor of Banks in Israel has not yet published binding directives regarding the date of adoption of the update.

Note 2 – Interest income and expenses

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
	Unaudited			
	NIS millions			
A. Interest income (a)				
From loans to the public	**2,092**	2,383	**6,836**	6,578
From loans to governments	**6**	6	**18**	13
From deposits with Bank of Israel and cash	**14**	10	**39**	29
From deposits with banks	**27**	24	**81**	63
From securities borrowed or purchased under agreement to resell	**-**	1	**1**	2
From debentures (b)	**155**	183	**525**	551
Total interest income	**2,294**	2,607	**7,500**	7,236
B. Interest expenses (a)				
On deposits of the public	**(272)**	(380)	**(979)**	(944)
On deposits from governments	**(1)**	(1)	**(3)**	(3)
On deposits from banks	**(3)**	(3)	**(12)**	(8)
On securities lent or sold under agreement to repurchase	**-**	(1)	**(1)**	(2)
On debentures, bonds and subordinated notes	**(100)**	(252)	**(549)**	(620)
Total interest expenses	**(376)**	(637)	**(1,544)**	(1,577)
Total interest income, net	**1,918**	1,970	**5,956**	5,659
C. Details of the net effect of hedging derivative instruments on interest income and expenses (c)				
Interest income	**(1)**	(11)	**(14)**	(31)
D. Details of accumulated interest income from bonds				
Available for sale	**141**	173	**477**	496
For trading	**14**	10	**46**	55
To maturity	**-** (d)	-	**2**	-
Total included in interest income	**155**	183	**525**	551

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 54 million and NIS 157 million for the three-month and nine-month periods which ended on September 30 2017, respectively (NIS 49 million and NIS 152 million for the three-month and nine-month periods which ended on September 30 2016, respectively).

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

(d) Income less than NIS 1 million.

Note 3 – Noninterest financing income

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
	Unaudited			
	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)	**321**	(410)	**(1,618)**	(910)
Total from activity in derivative instruments	**321**	(410)	**(1,618)**	(910)
A.2. From investment in bonds				
Gains from sale of bonds available for sale(f)	**68**	291	**121**	362
Losses from sale of bonds available for sale(f)	**(21)**	(5)	**(39)**	(17)
Total from investment in bonds	**47**	286	**82**	345
A.3. Exchange rate differentials, net	**(316)**	671	**2,134**	1,025
A.4. Gains (losses) from investment in shares				
Gains from sale of shares available for sale (c)(f)	**17**	17	**117**	592
Losses from sale of shares available for sale (e)(f)	**(7)**	(15)	**(29)**	(85)
Profit from sale of shares in associate companies	**-**	24	**-**	24
Dividend from shares available for sale	**5**	2	**15**	7
Total from investment in shares	**15**	28	**103**	538
A.5. Profits in respect of loans sold, net	**9**	31	**9**	45
Total noninterest financing income in respect of activities not for trading purposes	**76**	606	**710**	1,043
B. Noninterest financing income in respect of activities not for trading purposes				
Net gains (losses) in respect of other derivative instruments	**(1)**	-	**(1)**	-
Realized and unrealized gains (losses) from fair value adjustments of bonds held for trading, net (d)	**96**	(107)	**(78)**	46
Realized and unrealized losses from fair value adjustments of shares held for trading, net	**51**	-	**43**	(32)
Total from trading activities (g) (h)	**146**	(107)	**(36)**	14
Total noninterest financing income	**222**	499	**674**	1,057

(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 March 31 2017, 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 June 30 2017 (gain from the sale of Dalia in the amount of NIS 61 million.in the three-month period which ended on March 31 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 June 30 2016).
In the three-month period ended on September 30, 2017 and 2016, there were no material sales.
(d) Of which: part of the gains in the amounts of NIS 7 million and NIS 10 million for the three-month and nine-month periods which ended on September 30 2017, respectively, which relate to bonds held for trading still held at the balance sheet date (NIS 22 million and NIS 38 million for the three-month and nine-month periods which ended on September 30 2016, respectively.
(e) Including provisions for impairment related to shares available for sale of NIS 7 million for the nine-month period which ended on September 30 2016.
(f) Reclassified from accumulated OCI.
(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 the effect of tax

1. Changes in accumulated other comprehensive income (loss) for the three-month period which ended on September 30, 2017 and 2016 (unaudited)

	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 (c)	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss attributed to shareholders of the Bank
	NIS millions						
Balance at June 30, 2016	438	(79)	37	(2,616)	(2,220)	(4)	(2,216)
Net change	(217)	(31)	(14)	507	245	-	245
Balance at September 30, 2016	221	(110)	23	(2,109)	(1,975)	(4)	(1,971)
Balance at June 30, 2017	(91)	(192)	11	(2,254)	(2,526)	(4)	(2,522)
Net change	**164**	**9**	**(10)**	**(536)**	**(373)**	**-**	**(373)**
Balance at September 30, 2017 (Unaudited)	**73**	**(183)**	**1**	**(2,790)**	**(2,899)**	**(4)**	**(2,895)**

2. Changes in accumulated other comprehensive income (loss) for the nine-month period which ended on September 30, 2017 and 2016 (unaudited)

	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 (c)	Total	Other comprehensive loss attributed to non-controlling interests	Other comprehensive loss attributed to shareholders of the Bank
	NIS millions						
Balance at December 31, 2015 (Audited)	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change	154	(43)	(15)	(619)	(523)	-	(523)
Balance at September 30, 2016	221	(110)	23	(2,109)	(1,975)	(4)	(1,971)
Balance at December 31, 2016 (Audited)	**(86)**	**(79)**	**18**	**(2,169)**	**(2,316)**	**(4)**	**(2,312)**
Net change	**159**	**(104)**	**(17)**	**(621)**	**(583)**	**-**	**(583)**
Balance at September 30, 2017	**73**	**(183)**	**1**	**(2,790)**	**(2,899)**	**(4)**	**(2,895)**

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank.
(b) Net gains (losses), in respect of a net hedge of investment in foreign currency.
(c) Adjustments for employee benefits in the first nine months of 2017 include an estimate of the cost of the early retirement plan.

Note 4 – Accumulated Other Comprehensive Income (Loss) (contd.)

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

3. Changes in accumulated other comprehensive income (loss) for the year which ended on December 31, 2016 (audited)

	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 the Bank's shareholders
	NIS millions						
Balance at December 31, 2015	67	(67)	38	(1,490)	(1,452)	(4)	(1,448)
Net change	(153)	(12)	(20)	(679)	(864)	-	(864)
Balance at December 31, 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) Net gains (losses), in respect of a net hedge of investment in foreign currency.

Note 4 – Accumulated Other Comprehensive Income (Loss) (contd.)

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

	Three months ended September 30 (Unaudited)					
	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	NIS millions					
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:						
Adjustments for presentation of securities available for sale at fair value:						
Unrealized gains (losses) from adjustments to fair value	**316**	**(113)**	**203**	(58)	27	(31)
reclassified to the statement of profit and loss (a)	**(57)**	**18**	**(39)**	(288)	102	(186)
Net change in the period	**259**	**(95)**	**164**	(346)	129	(217)
Translation adjustments (b)						
Adjustments for translation of financial statements	**24**	**-**	**24**	(71)	13	(58)
Hedges (c)	**(22)**	**7**	**(15)**	57	(30)	27
Net change in the period	**2**	**7**	**9**	(14)	(17)	(31)
Bank's share in other comprehensive income (loss) of investee companies dealt with on equity basis	**(13)**	**3**	**(10)**	(14)	-	(14)
Net change in the period	**(13)**	**3**	**(10)**	(14)	-	(14)
Employee benefits						
Actuarial profit (loss) during the period	**(888)**	**299**	**(589)**	686	(243)	443
Amortization of actuarial profit (loss) (d)	**82**	**(29)**	**53**	101	(37)	64
Net change in the period	**(806)**	**270**	**(536)**	787	(280)	507
Total net change in the period	**(558)**	**185**	**(373)**	413	(168)	245
Changes in components of other comprehensive income due to non-controlling interests:	**-**	**-**	**-**	-	-	-
Total net change in the period	**(558)**	**185**	**(373)**	413	(168)	245

(a) The amount before tax is reported in the statement of profit and loss under non-interest financing. 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.

(c) Net gains (losses), 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 Benefits.

Note 4 – Accumulated Other Comprehensive Income (Loss) (contd.)

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

	Nine months ended September 30 (Unaudited)					
	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	NIS millions					
Changes in components of comprehensive income (loss) 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	**426**	**(148)**	**278**	1,062	(354)	708
Gains (losses) in respect of securities available for sale reclassified to the statement of profit and loss (a)	**(170)**	**51**	**(119)**	(852)	298	(554)
Net change in the period	**256**	**(97)**	**159**	210	(56)	154
Translation adjustments (b)						
Adjustments for translation of financial statements	**(235)**	**-**	**(235)**	(111)	13	(98)
Hedges (c)	**203**	**(72)**	**131**	87	(32)	55
Net change in the period	**(32)**	**(72)**	**(104)**	(24)	(19)	(43)
Bank's share in other comprehensive income (loss) of investee companies dealt with on equity basis	**(24)**	**7**	**(17)**	(15)	-	(15)
Net change in the period	**(24)**	**7**	**(17)**	(15)	-	(15)
Employee benefits:						
Actuarial profit (loss) in the period	**(1,173)**	**403**	**(770)**	(1,151)	383	(768)
Amortization of actuarial profit (loss) (d)	**230**	**(81)**	**149**	233	(84)	149
Net change during the period	**(943)**	**322**	**(621)**	(918)	299	(619)
Total net change during the period	**(743)**	**160**	**(583)**	(747)	224	(523)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:	**-**	**-**	**-**	-	-	-
Total net change in the period	**(743)**	**160**	**(583)**	(747)	224	(523)

(a) The amount before tax is reported in the statement of profit and loss under non-interest financing. 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.

(c) Net gains (losses), 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 Benefits.

Note 4 – Accumulated Other Comprehensive Income (Loss) (contd.)

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

	Year ended December 31 (Audited)		
	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 other comprehensive income (loss) of investee companies dealt on equity basis	(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.
(c) Net gain (losses), 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 Benefits.

Note 5 - Securities

	September 30, 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	**36**	**36**	**1**	**-**	**37**
Others abroad	**370**	**370**	**4**	**(6)**	**368**
Mortgage-backed (MBS)	**408**	**408**	**2**	**(6)**	**404**
Total debentures held to maturity	**814**	**814**	**7**	**(12)**	**809**

	September 30, 2017 (Unaudited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	NIS millions				
2. Securities available for sale:					
Debentures -					
Government of Israel	**39,004**	**38,897**	**166**	**(59)**	**39,004**
Foreign governments	**13,378**	**13,384**	**5**	**(11)**	**13,378**
Financial institutions in Israel	**23**	**22**	**1**	**-**	**23**
Foreign financial institutions	**8,554**	**8,515**	**50**	**(11)**	**8,554**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**8,613**	**8,675**	**13**	**(75)**	**8,613**
Others in Israel	**82**	**76**	**6**	**-**	**82**
Others abroad	**2,567**	**2,558**	**24**	**(15)**	**2,567**
	72,221	**72,127**	**265**	**(171)**	**72,221**
Shares and mutual funds[(b)]	**2,795**	**2,735**	**91**	**(31)**	**2,795**
Total securities available for sale[(f)]	**75,016**	**74,862**	**356[(c)]**	**(202)[(c)]**	**75,016**

See notes on page 107.

Note 5 - Securities (contd.)

	September 30, 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	**4,760**	**4,752**	**15**	**(7)**	**4,760**
Foreign governments	**473**	**477**	**-**	**(4)**	**473**
Financial institutions in Israel	**55**	**54**	**1**	**-**	**55**
Foreign financial institutions	**197**	**196**	**1**	**-**	**197**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**288**	**287**	**2**	**(1)**	**288**
Others in Israel	**157**	**153**	**4**	**-**	**157**
Others abroad	**334**	**331**	**4**	**(1)**	**334**
	6,264	**6,250**	**27**	**(13)**	**6,264**
Shares and mutual funds	**4**	**4**	**-**	**-**	**4**
Total securities held for trading	**6,268**	**6,254**	**27 (d)**	**(13) (d)**	**6,268**
Total securities	**82,098**	**81,930**	**390**	**(227)**	**82,093**

	September 30, 2016 (Unaudited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	NIS millions				
1. Securities available for sale:					
Debentures -					
Government of Israel	39,349	39,075	275	(1)	39,349
Foreign governments[(g)]	8,041	8,014	29	(2)	8,041
Financial institutions in Israel	36	35	1	-	36
Foreign financial institutions	7,042	7,004	52	(14)	7,042
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	10,007	9,976	62	(31)	10,007
Others in Israel	396	379	17	-	396
Others abroad[(g)]	2,424	2,338	87	(1)	2,424
	67,295	66,821	523	(49)	67,295
Shares and mutual funds[(b)]	2,101	2,036	73	(8)	2,101
Total securities available for sale[(f)]	69,396	68,857	596 (c)	(57) (c)	69,396

See notes on page 107.

Note 5 - Securities (contd.)

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

	December 31, 2016 (Audited)				
			Accumulated other comprehensive income (loss)		
	Balance sheet amount	Amortized cost (in shares - cost)	Gains	Losses	Fair value[(a)]
	NIS millions				
1. Securities available for sale:					
Debentures -					
Government of Israel	35,409	35,386	131	(108)	35,409
Foreign governments[(g)]	11,449	11,494	8	(53)	11,449
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[(g)]	2,362	2,396	17	(51)	2,362
	66,748	66,922	221	(395)	66,748
Shares and mutual funds[(b)]	1,942	1,860	97	(15)	1,942
Total securities available for sale[(f)]	68,690	68,782	318 (c)	(410) (c)	68,690

See notes on page 107.

Note 5 - Securities (contd.)

	December 31, 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)]	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 951 million (September 30 2016 - NIS 964 million, December 31, 2016 - NIS 981 million).

(c) Included in capital under "Adjustments in respect of presentation of available for sale securities at fair value, net" in OCI except for securities intended to be hedged under fair value hedging.

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

(e) Including interest-accruing impaired bonds in the amount of NIS 12 million.

(f) A total of NIS 8.6 billion from the foreign currency securities are, Sovereign, Supranational and Agency Bonds (SSA) (September 30, 2016 - NIS 7.4 billion, December 31, 2016 - NIS 7.5 billion).

(g) Reclassified.

General notes:

Securities loaned in the amount of NIS 247 million (September 30, 2016 - NIS 513 million, December 31, 2016 - NIS 324 million) are included in "Loans to the Public".

Securities pledged to lenders amounted to NIS 4,900 million (September 30, 2016 - NIS 4,989 million, December 31, 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 January 1, 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 (contd.)

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

	September 30, 2017 (Unaudited)									
	Less than 12 months[a]					12 months and more[b]				
		Unrealized losses from adjustments to fair value					Unrealized losses from adjustments to fair value			
	Amortized cost	0-20%[c]	20% -35%[d]	More than 35%[e]	Total	Amortized cost	0-20%[c]	20% -35%[d]	More than 35%[e]	Total
	NIS millions									
Bonds										
Mortgage-backed securities (MBS)	**274**	**6**	**-**	**-**	**6**	**-**	**-**	**-**	**-**	**-**
Others abroad	**164**	**6**	**-**	**-**	**6**	**4**	**-** [f]	**-**	**-**	**-**
Total bonds held to maturity	**438**	**12**	**-**	**-**	**12**	**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

	September 30, 2017 (Unaudited)									
	Less than 12 months [a][g]					12 months and more[b][g]				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[c]	20% -35%[d]	More than 35%[e]	Total	Fair value	0-20%[c]	20% -35%[d]	More than 35%[e]	Total
	NIS millions									
Bonds										
State of Israel	**7,310**	**59**	**-**	**-**	**59**	**-**	**-**	**-**	**-**	**-**
Foreign governments	**11,259**	**11**	**-**	**-**	**11**	**20**	**-** [f]	**-**	**-**	**-**
Foreign financial institutions	**4,707**	**10**	**-**	**-**	**10**	**17**	**1**	**-**	**-**	**1**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**5,964**	**74**	**-**	**-**	**74**	**39**	**1**	**-**	**-**	**1**
Others abroad	**1,203**	**15**	**-**	**-**	**15**	**-**	**-**	**-**	**-**	**-**
Shares and mutual funds	**443**	**28**	**-**	**-**	**28**	**94**	**3**	**-**	**-**	**3**
Total securities available for sale	**30,886**	**197**	**-**	**-**	**197**	**170**	**5**	**-**	**-**	**5**

(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 (contd.)

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 (contd.)

	September 30, 2016 (Unaudited)									
		Less than 12 months [(a)(g)]					12 months and more[(b)(g)]			
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[(c)]	20% -35%[(d)]	More than 35%[(e)]	Total	Fair value	0-20%[(c)]	20% -35%[(d)]	More than 35%[(e)]	Total
	NIS millions									
Bonds										
State of Israel	4,846	1	-	-	1	-	-	-	-	-
Foreign governments[(h)]	3,006	2	-	-	2	10	- [(f)]	-	-	-
Financial institutions abroad	3,180	10	-	-	10	33	4	-	-	4
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	3,511	31	-	-	31	61	- [(f)]	-	-	-
Others in Israel	3	- [(f)]	-	-	-	-	-	-	-	-
Others abroad[(h)]	372	1	-	-	1	-	-	-	-	-
Shares and mutual funds	204	8	-	-	8	86	- [(f)]	-	-	-
Total securities available for sale	15,122	53	-	-	53	190	4	-	-	4

	December 31, 2016 (Audited)									
		Less than 12 months [(a)(g)]					12 months and more[(b)(g)]			
		Unrealized losses					Unrealized losses			
	Fair value	0-20%[(c)]	20% -35%[(d)]	More than 35%[(e)]	Total	Fair value	0-20%[(c)]	20% -35%[(d)]	More than 35%[(e)]	Total
	NIS millions									
Bonds										
State of Israel	24,825	108	-	-	108	-	-	-	-	-
Foreign governments[(h)]	5,069	53	1	-	53	38	- [(f)]	-	-	-
Foreign financial institutions	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[(h)]	1,392	50	-	-	51	-	-	-	-	-
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.
(h) Reclassified.

Note 5 - Securities (contd.)

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

	September 30, 2017 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]
	NIS millions					
Mortgage-backed securities (MBS)	**2,411**	**(43)**	**39**	**(1)**	**2,450**	**(44)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**2,722**	**(29)**	**-**	**-**	**2,722**	**(29)**
Asset-backed securities (ABS)	**831**	**(2)**	**-**	**-**	**831**	**(2)**
Total	**5,964**	**(74)**	**39**	**(1)**	**6,003**	**(75)**

	September 30, 2016 (Unaudited)					
	Up to 12 months		Over 12 months		Total	
	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]	Fair value	Unrealized losses from adjustments to fair value[(a)]
	NIS millions					
Mortgage-backed securities (MBS)	809	(16)	56	- (b)	865	(16)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	2,250	(14)	-	-	2,250	(14)
Asset-backed securities (ABS)	452	(1)	5	- (b)	457	(1)
Total	3,511	(31)	61	-	3,572	(31)

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

(a) Amounts included in capital reserve as part of net OCI after the effect of tax.

Note 5 - Securities (contd.)

Additional information on mortgage-backed securities held to maturity

	September 30, 2017 (Unaudited)			
	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	NIS millions			
1. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	**35**	**-**	**(1)**	**34**
Total	**35**	**-**	**(1)**	**34**
2. Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	**181**	**-**	**(4)**	**177**
Other mortgage-backed securities	**192**	**2**	**(1)**	**193**
Total other mortgage-backed securities	**373**	**2**	**(5)**	**370**
Total mortgage-backed securities (MBS)	**408**	**2**	**(6)**	**404**
Total mortgage-backed securities held to maturity	**408**	**2**	**(6)**	**404**

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

	September 30, 2017 (Unaudited)			
		Accumulated other comprehensive income (loss)[(a)]		
	Amortized cost	Gains	Losses	Fair value
	NIS millions			
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	**233**	**-**	**(6)**	**227**
Securities issued by FNMA and FHLMC	**1,878**	**1**	**(27)**	**1,852**
Other securities	**1,024**	**1**	**(11)**	**1,014**
Total mortgage-backed pass-through securities	**3,135**	**2**	**(44)**	**3,093**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	**3,735**	**6**	**(29)**	**3,712**
Other mortgage-backed securities	**260**	**1**	**-**	**261**
Total other mortgage-backed securities	**3,995**	**7**	**(29)**	**3,973**
Total mortgage-backed securities (MBS)	**7,130**	**9**	**(73)**	**7,066**
Asset-backed securities (ABS)				
Other credit to private persons	**-**	**-**	**-**	**-**
Credit not to private persons	**237**	**-**	**-**	**237**
CLO-type debentures	**1,308**	**4**	**(2)**	**1,310**
Total asset-backed securities	**1,545**	**4**	**(2)**	**1,547**
Total mortgage-backed and asset-backed debentures available for sale	**8,675**	**13**	**(75)**	**8,613**

(a) Amounts included in capital reserve as part of net OCI after the effect of tax.

Note 5 - Securities (contd.)

Additional information on mortgage-backed and asset-backed securities available for sale (contd.)

	September 30, 2016 (Unaudited)			
	Amortized cost	Accumulated other comprehensive income (loss)[(a)] Gains	Losses	Fair value
	NIS millions			
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	253	1	-	254
Securities issued by FNMA and FHLMC	1,854	13	-	1,867
Other securities	835	-	(16)	819
Total mortgage-backed pass-through securities	2,942	14	(16)	2,940
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued or guaranteed by FNMA, FHLMC, or GNMA	4,594	29	(13)	4,610
Other mortgage-backed securities	585	5	(1)	589
Total other mortgage-backed securities	5,179	34	(14)	5,199
Total mortgage-backed securities (MBS)	8,121	48	(30)	8,139
Asset-backed securities (ABS)				
Other credit to private persons	260	1	-	261
Credit not to private persons	1	-	-	1
CLO-type debentures	1,594	13	(1)	1,606
Total asset-backed securities	1,855	14	(1)	1,868
Total mortgage-backed and asset-backed debentures available for sale	9,976	62	(31)	10,007

(a) Amounts included in capital reserve as part of net OCI after the effect of tax.

Note 5 - Securities (contd.)

Additional information on mortgage-backed and asset-backed securities available for sale (contd.)

	December 31, 2016 (Audited)			
	Amortized cost	Accumulated other comprehensive income (loss)[a] Gains	Losses	Fair value
	NIS millions			
2. Debentures available for sale (Pass-through securities)				
Securities guaranteed by GNMA	281	-	(8)	273
Securities issued by FNMA and FHLMC	2,039	-	(53)	1,986
Securities issued by others	743	-	(15)	728
Total mortgage-backed pass-through securities	3,063	-	(76)	2,987
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued 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)				
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 net OCI after the effect of tax.

Note 5 - Securities (contd.)

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

	September 30, 2017 (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	**5**	**-**	**-**	**5**
Total mortgage-backed pass-through securities	**5**	**-**	**-**	**5**
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Other mortgage-backed securities	**59**	**-**	**-**	**59**
Total other mortgage-backed securities	**59**	**-**	**-**	**59**
Total mortgage-backed securities (MBS)	**64**	**-**	**-**	**64**
Asset-backed securities (ABS)				
Credit card receivables	**11**	**-**	**-**	**11**
Credit for purchase of vehicle	**74**	**-**	**-**	**74**
Other credit to private persons	**10**	**-**	**-**	**10**
Others	**128**	**2**	**(1)**	**129**
Total asset-backed securities	**223**	**2**	**(1)**	**224**
Total mortgage-backed and asset-backed debentures held for trading	**287**	**2**	**(1)**	**288**

(a) Gains (losses) which were charged to the statement of profit and loss.

Note 5 - Securities (contd.)

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

	September 30, 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	6	-	-	6
Total mortgage-backed pass-through securities	6	-	-	6
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Other mortgage-backed securities	82	1	(1)	82
Total other mortgage-backed securities	82	1	(1)	82
Total mortgage-backed securities (MBS)	88	1	(1)	88
Asset-backed securities (ABS)				
Credit card receivables	12	-	-	12
Credit for purchase of vehicle	51	-	-	51
Other credit to private persons	12	-	-	12
Others	105	2	(1)	106
Total asset-backed securities	180	2	(1)	181
Total mortgage-backed and asset-backed debentures held for trading	268	3	(2)	269

(a) Gains (losses) which were charged to the statement of profit and loss.

Note 5 - Securities (contd.)

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

	December 31, 2016 (Audited)			
	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	6	-	-	6
Total mrtgage-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) which were charged to the statement of 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

	September 30, 2017 (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	**111,306**	**40**	**658**	**112,004**	**9,931**	**121,935**
Examined on a collective basis[1]	**41,152**	**78,096**	**38,378**	**157,626**	**1,090**	**158,716**
[1]Of which: the allowance was calculated by extent of arrears	**983**[(c)]	**77,617**	**-**	**78,600**	**-**	**78,600**
Total debts[(a)]	**152,458**	**78,136**	**39,036**	**269,630**	**11,021**	**280,651**
[2]Of which:						
Debts under restructuring	**1,589**	**-**	**87**	**1,676**	**-**	**1,676**
Other impaired debts	**1,363**	**-**	**94**	**1,457**	**-**	**1,457**
Total impaired debts	**2,952**	**-**	**181**	**3,133**	**-**	**3,133**
Debts in arrears of 90 days or more	**121**	**704**	**84**	**909**	**-**	**909**
Other problem debts	**2,436**	**-**	**397**	**2,833**	**-**	**2,833**
Total impaired debts	**5,509**	**704**	**662**	**6,875**	**-**	**6,875**
Allowance for credit losses for debts[(a)]:						
Examined on an individual basis	**1,629**	**5**	**99**	**1,733**	**1**	**1,734**
Examined on a collective basis[3]	**434**	**444**	**661**	**1,539**	**-**	**1,539**
[3]Of which the allowance was calculated by extent of arrears	**-**	**442**[(b)]	**-**	**442**	**-**	**442**
Total allowance for credit losses[4]	**2,063**	**449**	**760**	**3,272**	**1**	**3,273**
[4]Of which in respect of impaired debts	**489**	**-**	**30**	**519**	**-**	**519**

(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 335 million.

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

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

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

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

(a) 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 300 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 (contd.)

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

	December 31, 2016 (Audited)					
	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	106,782 [(d)]	45	542 [(d)]	107,369	7,890	115,259
Examined on a collective basis[1]	40,980 [(d)]	79,086	38,015 [(d)]	158,081	4,148	162,229
[1]Of which: the allowance was calculated by extent of arrears	909 [(c)]	78,656	-	79,565	-	79,565
Total debts[(a)2]	147,762	79,131	38,557	265,450	12,038	277,488
[2]Of which:						
Debts under restructuring	1,971	-	87	2,058	-	2,058
Other impaired debts	1,524	-	71	1,595	-	1,595
Total impaired debts	3,495	-	158	3,653	-	3,653
Debts in arrears of 90 days or more	161	719	123	1,003	-	1,003
Other problem debts	2,634	-	409	3,043	-	3,043
Total impaired debts	6,290	719	690	7,699	-	7,699
Allowance for credit losses for debts[(a)]:						
Examined on an individual basis	1,855 [(d)]	6	57 [(d)]	1,918	1	1,919
Examined on a collective basis[3]	378 [(d)]	467	730 [(d)]	1,575	-	1,575
[3]Of which: the allowance was calculated by extent of arrears	-	462 [(b)]	-	462	-	462
Total allowance for credit losses[4]	2,233	473	787	3,493	1	3,494
[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 (contd.)

B. Change in balance of allowance for credit losses

	Three months ended September 30 ,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	**2,546**	**457**	**772**	**3,775**	**1**	**3,776**
Provision for credit losses	**(68)**	**(5)**	**76**	**3**	**-**	**3**
Accounting write-offs	**(152)**	**(2)**	**(129)**	**(283)**	**-**	**(283)**
Collection of debts written off in previous years	**189**	**-**	**80**	**269**	**-**	**269**
Net accounting write-offs	**37**	**(2)**	**(49)**	**(14)**	**-**	**(14)**
Adjustments from translation of financial statements	**4**	**(1)**	**(3)**	**-**	**-**	**-**
Balance of allowance for credit losses at end of the reporting period[1]	**2,519**	**449**	**796**	**3,764**	**1**	**3,765**
[1]Of which: in respect of off-balance sheet credit instruments	**456**	**-**	**36**	**492**	**-**	**492**

	Three months ended September 30 ,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	2,717	513	779	4,009	2	4,011
Provision for credit losses	11	(5)	100	106	-	106
Accounting write-offs	(146)	(22)	(210)	(378)	-	(378)
Collection of debts written off in previous years	166	-	112	278	-	278
Net accounting write-offs	20	(22)	(98)	(100)	-	(100)
Adjustments from translation of financial statements	(1)	-	-	(1)	-	(1)
Balance of allowance for credit losses at end of the reporting period[1]	2,747	486	781	4,014	2	4,016
[1]Of which: in respect of off-balance sheet credit instruments	449	-	38	487	-	487

Note – Credit Risk, Loans to the Public and Allowance for Credit Losses (contd.)

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

	Nine months ended September 30 ,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	**2,685**	**473**	**823**	**3,981**	**1**	**3,982**
Provision for credit losses	**16**	**(18)**	**148**	**146**	**-**	**146**
Accounting write-offs	**(586)**	**(6)**	**(446)**	**(1,038)**	**-**	**(1,038)**
Collection of debts written off in previous years	**417**	**-**	**274**	**691**	**-**	**691**
Net accounting write-offs	**(169)**	**(6)**	**(172)**	**(347)**	**-**	**(347)**
Adjustments from translation of financial statements	**(13)**	**-**	**(3)**	**(16)**	**-**	**(16)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,519**	**449**	**796**	**3,764**	**1**	**3,765**
[1]Of which: in respect of off-balance sheet credit instruments	**456**	**-**	**36**	**492**	**-**	**492**

	Nine months ended September 30 , 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
Provision for credit losses	(501)[(a)]	1	330[(a)]	(170)	(1)	(171)
Accounting write-offs	(367)	(27)	(516)	(910)	-	(910)
Collection of debts written off in previous years	638	-	309	947	-	947
Net accounting write-offs	271	(27)	(207)	37	-	37
Adjustments from translation of financial statements	(4)	(1)	(1)	(6)	-	(6)
Balance of allowance for credit losses at end of the reporting period[1]	2,747	486	781	4,014	2	4,016
[1]Of which: in respect of off-balance sheet credit instruments	449	-	38	487	-	487

(a) Reclassified.

Note 7 – Deposits from the Public

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

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
In Israel			
On demand			
Noninterest-bearing	**80,301**	73,213	79,516
Interest bearing	**106,372**	91,723	97,328
Total on demand	**186,673**	164,936	176,844
Fixed term	**138,916**	145,042	143,289
Total deposits in Israel[1]	**325,589**	309,978	320,133
Outside Israel			
On demand			
Non-interest-bearing	**9,558**	9,587	10,306
Interest bearing	**5,544**	3,794	4,339
Total on demand	**15,102**	13,381	14,645
Fixed term	**9,510**	13,492	12,076
Of which:non-interest-bearing deposits	**17**	37	32
Total deposits outside Israel	**24,612**	26,873	26,721
Total deposits of the public	**350,201**	336,851	346,854
[1]Of which:			
Deposits of private persons	**140,452**	142,872	143,644
Deposits of institutional entities	**62,563**	54,948	55,862
Deposits of corporations and others	**122,574**	112,158	120,627

B. Deposits from the public by size

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Up to 1	**98,538**	94,963	96,368
From 1 to 10	**91,532**	92,378	93,912
From 10 to 100	**59,755**	57,662	60,809
From 100 to 500	**36,920**	33,215	37,271
Above 500	**63,456**	58,633	58,494
Total	**350,201**	336,851	346,854

Note 8 – Employee Benefits

Efficiency

On January 12, 2016, the Banking Supervision Department published a letter on "Operational Streamlining of the Banking System in Israel" (hereinafter: **"the Efficiency 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 July 11, 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 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.
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 (contd.)

A. Composition of benefits

1. Employee benefits

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**17,560**	16,892	16,948
Fair value of plan assets	**6,577**	6,761	6,819
Excess liabilities over plan assets (included under other liabilities)	**10,983**	10,131	10,129
Long-service (Jubilee) bonus			
Amount of liability (a)	**58**	123	82
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**58**	123	82
Other benefits			
Amount of liability	**559**	608	559
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**559**	608	559
Total[1]			
Excess liabilities in respect of employee benefits over plan assets included under "Other liabilities"	**11,600**	10,862	10,770
[1]Of which: in respect of employee benefits overseas	**104**	129	117

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

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

1. Defined benefit pension plan

A. Commitment and state of funding

1. Change in commitment in respect of expected benefit

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Commitment in respect of forecast benefit at the beginning of the period	**16,662**	17,465	**16,948**	15,764	15,764
Service cost	**35**	39	**107**	125	163
Interest cost	**170**	169	**525**	515	687
Deposits of plan participants	**11**	14	**34**	37	48
Actuarial loss (profit)	**837**	(540)	**1,163**	1,046	1,174
Changes in foreign currency exchange rates	**11**	(15)	**(14)**	(38)	(38)
Benefits paid (a)	**(166)**	(240)	**(1,203)**	(572)	(865)
Other	**-**	-	**-**	15	15
Commitment in respect of forecast benefit at the end of the period	**17,560**	16,892	**17,560**	16,892	16,948
Commitment in respect of accumulated benefit at the end of the period	**16,445**	16,273	**16,445**	16,273	16,011

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

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Fair value of plan assets at the beginning of the period	**6,520**	6,685	**6,819**	6,766	6,766
Actual return on plan assets:	**58**	190	**261**	147	257
Deposits in the plan by the Bank	**31**	32	**87**	96	158
Deposits by plan participants	**11**	14	**34**	37	48
Changes in foreign currency exchange rates	**9**	(14)	**(13)**	(36)	(37)
Benefits paid (a)	**(52)**	(146)	**(611)**	(261)	(449)
Other	**-**	-	**-**	12	76
Fair value of plan assets at the end of the period	**6,577**	6,761	**6,577**	6,761	6,819
Funding position - net liability recognized at the end of the period (included in other liabilities)	**10,983**	10,131	**10,983**	10,131	10,129

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

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

2. Defined benefit pension plan (contd.)

A. Commitment and financing position (contd.)

3. Amounts recognized in the consolidated balance sheet

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Amounts recognized under other liabilities	**10,983**	10,131	10,129
Liability net recognized at the end of the period	**10,983**	10,131	10,129

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

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Net actuarial loss	**4,184**	3,264	3,241
Closing balance in accumulated other income	**4,184**	3,264	3,241

B. Expense for the period

1. Components of cost benefit, net, recognized in profit and loss

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Service cost	**35**	39	**107**	125	163
Interest cost	**170**	169	**525**	515	687
Forecast return on plan assets	**(88)**	(94)	**(267)**	(276)	(373)
Amortization of amounts not recognized - net actuarial loss	**81**	99	**226**	228	310
Total cost of benefit, net	**198**	213	**591**	592	787
Total expense in respect of defined deposit pension plan	**38**	40	**115**	119	158
Total expenses included in salaries and related expenses	**236**	253	**706**	711	945

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

2. Defined benefit pension plan (contd.)

B. Expense for the period (contd.)

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

	Three months ended September 30		Nine months ended September 30		Year ended December 31
	2017	2016	**2017**	2016	2016
	Unaudited				Audited
	NIS millions				
Net actuarial loss (profit) for the period	**867**	(636)	**1,169**	1,175	1,290
Amortization of amounts not recognized - net actuarial profit	**(81)**	(99)	**(226)**	(228)	(310)
Changes in foreign currency exchange rates	**-**	(3)	**-**	(12)	(4)
Other including structural change	**-**	-	**-**	-	(64)
Total recognized in other comprehensive income	**786**	(738)	**943**	935	912
Net cost of benefit	**198**	213	**591**	592	787
Total recognized in cost of benefit, net, for the period and in other comprehensive income	**984**	(525)	**1,534**	1,527	1,699

3. Estimate of amounts included in accumulated OCI expected to be deducted from accumulated OCI as an expense in the statement of profit and loss in 2017 before the effect of tax

	Three months ended December 31, 2017
	Unaudited
	NIS millions
Net actuarial loss	**104**
Total expected to be amortized from accumulated other comprehensive income	**104**

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

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

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	**2.27**	2.48	2.49
CPI discount rate	**1.68**	1.68	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. Main assumptions used for measuring the net cost of the benefit for the period

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	Percentages		
Discount rate	**2.62**	2.23	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 the effect of tax

	Increase of one percentage point			Decrease of one percentage point		
	September 30		December 31	September 30		December 31
	2017	2016	2016	**2017**	2016	2016
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Discount rate	**(2,247)**	(2,180)	(2,191)	**2,832**	2,733	2,745
CPI discount rate	**(65)**	(123)	(130)	**65**	124	131
Employee turnover rate	**214**	220	222	**(233)**	(238)	(241)
Rate of growth in remuneration	**634**	622	663	**(538)**	(546)	(581)

(a) The assumptions relate to Bank figures only.

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

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

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
Cash and deposits in banks	**176**	195	279
Shares	**2,585**	2,533	2,401
Government bonds	**1,209**	1,451	1,630
Corporate bonds	**2,043**	2,208	1,940
Other	**564**	374	569
Total	**6,577**	6,761	6,819

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

	Allocation target	Percentage of plan assets		
		September 30		December 31
	2017	**2017**	2016	2016
	Unaudited			Audited
	Percentage			
Cash and deposits in banks	**2**	**3**	3	4
Shares	**38**	**39**	37	36
Government bonds	**19**	**18**	21	24
Corporate bonds	**31**	**31**	33	28
Other	**10**	**9**	6	8
Total	**100**	**100**	100	100

Note 8 – Employee Benefits (contd.)

A. Composition of benefits (contd.)

5. Cash flows
a. Deposits

	Forecast (a)	Actual deposits Three months ended September 30		Actual deposits Nine months ended September 30		Year ended 31 December
	2017	**2017**	2016	**2017**	2016	2016
	Unaudited					Audited
	NIS millions					
Deposits	**162**	**42**	46	**121**	133	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	171
2018	634
2019	695
2020	732
2021	754
2022-2026	4,345
2027 and thereafter	11,978
Total	19,309

(a) In discounted values.

Note 9A – Capital

Changes in the Bank's capital

Pursuant to the Bank's Remuneration Policy, the term set in the remuneration policy were met for the vesting into shares of the third and last third of the PSU units (that were allocated to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office-holders in the Bank (henceforth: **"Office Holders in the Bank"**) as part of the approval of the performance-based annual bonus, in respect of half of the bonus for the year 2013) (henceforth: **"2014 PSU units"**) and for the vesting into shares of the first third of the PSU units that were allocated to the office-holders in the Bank as part of the approval of the performance-based annual bonus, in respect of half of the bonus for the year 2015) (henceforth: **"2016 PSU units"**), and accordingly the last third of the 2014 PSU units and the first third of the 2016 units vested into shares. Accordingly, on April 3, 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 April 6, 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 March 30, 2017 (hereinafter: **"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 April 20, 2017, the Israel Securities Authority approved the Bank's request to extend the period of offering securities, pursuant to the Bank's Shelf Prospectus published by the Bank on May 27, 2015, for an additional year, until May 27, 2018.

Dividend Distribution Policy

On March 29, 2017, the Board of Directors of the Bank approved a dividend distribution policy, effective on 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.

On November 20, 2017, the Board of Directors of the Bank approved a change in the Dividend Distribution Policy from a rate of 20% each quarter to a rate of up to 40% each quarter of the net profit for that quarter beginning from the profits of the third quarter of 2017. In accordance with this policy, the Bank will distribute every quarter a dividend at a rate of up to 40% of the net profit of the Bank according to the financial statements of the Bank for the preceding quarter and subject, inter alia, to the Bank meeting its capital adequacy targets, after distributing 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 the distribution of dividends, including the provisions of the Company Law, and directives of the Bank of Israel.

In accordance with the updated policy, with regard to the third quarter of 2017, the Board of Directors approved a dividend at the rate of 40% of the net profit for the quarter. The dividend amount approved totaled NIS 328 million. The accumulated dividend in respect of the first nine months of the year totaled about NIS 628 million.

Details regarding dividend paid

Date declared	Date paid	Dividend per share	Dividend paid in cash
		In NIS	In NIS millions
May 25, 2017	June 22, 2017	0.08168	124
August 15, 2017	September 11, 2017	0.11504	175

Note 9B –Capital Adequacy, Leverage and Liquidity

General

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives Nos. 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 January 1, 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 January 1, 2014 until January 1, 2018. Capital instruments are no longer eligible as regulatory capital were recognized up to the ceiling of 80% on January 1, 2014, and ever subsequent year this ceiling is reduced by an additional 10% until January 1, 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 August 29, 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 October 22, 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 Nos. 203 and 204 with the aim of adapting them to the Basel Committee recommendation relating capital requirements of banking corporations to key counterparties. The circular sets out the new instructions that will apply to exposures to key counterparties caused by OTC derivatives, derivative transactions quoted on the Tel Aviv Stock Exchange and securities financing transactions.

On July 2, 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 weighted 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%.

Capital components subject to volatility

The Standards regarding employee rights, which were 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 July 12, 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 June 30, 2016 until December 31, 2020 (inclusive). The change in the calculation methodology significantly moderates the volatility that stems from the changes in the discount interest.

On November 15, 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 16,684 million and Common Equity Tier 1 capital to NIS 34,180 million, compared with the pension liability in the books of NIS 18,119 million and Common Equity Tier 1 capital of NIS 32,580 million.

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

	September 30		December 31
	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)]	**34,180**	32,255	32,586
Tier 2 capital, after deductions	**11,243**	12,405	11,850
Total capital	**45,423**	44,660	44,436
Weighted balances of risk-weighted assets			
Credit risk (b)	**275,318**	271,243	266,534
Market risk	**5,018**	5,212	4,788
Operational risk	**20,867**	20,518	20,843
Total weighted balances of risk-weighted assets	**301,203**	296,973	292,165
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	**11.35%**	10.86%	11.15%
Ratio of total capital to risk components	**15.08%**	15.04%	15.21%
Minimum Tier 1 capital ratio required by the Supervisor of Banks [(a)]	**10.26%**	9.20%	9.24%
Minimum total capital ratio required by the Supervisor of Banks [(a)]	**13.76%**	12.70%	12.74%
B. Principal subsidiary companies			
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	**15.67%**	16.38%	16.81%
Ratio of total capital to risk components	**16.73%**	17.31%	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	**11.99%**	12.29%	12.21%
Ratio of total capital to risk components	**14.52%**	14.94%	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 capital ratio and the minimum total equity ratio required as of January 1, 2015 and until December 31, 2016 are 9% and 12.5%, respectively, and as of January 1, 2017 are 10% and 13.5%, respectively. Added to these ratios, as of January 1, 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 April 1, 2015 to January 1, 2017. Accordingly, the minimum Common Equity Tier 1 capital ratio and the minimum total capital ratio to be required by the Supervisor of Banks as at January 1, 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 January 12, 2016, regarding "Operational Streamlining of the Banking System in Israel" (hereinafter: adjustments for the efficiency plan). Pursuant to the above letter, the reliefs provided for the capital adequacy ratio and the leveraging ratio in respect of the efficiency plans approved by the Board of Directors in June 2016 and July 2017 will gradually decrease until June 30, 2021 and June 30, 2022 respectively. For further information regarding the impact of the transitional provisions and the adjustments for the efficiency plan, see section D below. NIS 104 million was deducted from the total weighted balances of risk-weighted assets, due to adjustments in respect of the efficiency plan (December 31, 2016 – NIS 116 million, September 30, 2016 – NIS 121 million).

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

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

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
1. Common Equity Tier 1			
Capital due to shareholders of the Bank	**32,793**	31,228	31,347
Differences between capital due to shareholders of the Bank and Common Equity Tier 1 - minority interests	**227**	243	245
Differences between capital due to shareholders of the Bank and Common Equity Tier 1 - in respect of employee benefits	**558**	843	868
Adjustments in respect of the transition from the acounting curve to the 8-quarter curve (a)	**392**	191	137
Common Equity Tier 1 before regulatory adjustments and deductions	**33,970**	32,505	32,597
Regulatory adjustments and deductions:			
Goodwill and intangible assets	**(254)**	(264)	(265)
Deferred tax assets	**(299)**	(367)	(120)
Regulatory adjustments and other deductions - Common Equity Tier 1	**(18)**	(12)	(19)
Total regulatory adjustments and deductions - Common Equity Tier 1	**(571)**	(643)	(404)
Total adjustments for the efficiency plan	**781**	393	393
Total Common Equity Tier 1, after regulatory adjustments and deductions	**34,180**	32,255	32,586
2. Tier 2 capital			
Tier 2 capital: instruments before deductions	**8,152**	9,215	8,662
Tier 2 capital: provisions before deductions	**3,091**	3,190	3,188
Total Tier 2 capital before deductions	**11,243**	12,405	11,850
Deductions:			
Total deductions - Tier 2 capital	**-**	-	-
Total Tier 2 capital	**11,243**	12,405	11,850
Total capital	**45,423**	44,660	44,436

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

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

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

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

	September 30		December 31
	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 efficiency plan (a)	**10.88%**	10.35%	10.66%
Effect of the transitional provisions	**0.21%**	0.38%	0.35%
Ratio of Common Equity Tier 1 to risk components before the effect of adjustments in respect of the efficiency plan	**11.09%**	10.73%	11.01%
Adjustments in respect of the efficiency plan	**0.26%**	0.13%	0.14%
Ratio of Common Equity Tier 1 to risk components	**11.35%**	10.86%	11.15%

(a) Including the effect of adoption of US GAAP on employee benefits.
On January 12, 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 April 28, 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive no. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in the banking corporation.

The leverage ratio is expressed as a percentage, and is defines as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements that were set. The total exposure measurement of the Bank is the amount of balance-sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items. In general, this measurement will be consistent with the accounting values and risk weights are not taken into account. In addition, the Bank is not allowed to use physical or financial collateral, guarantees or other techniques for credit risk mitigation, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives with Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. Pursuant to that stated above, the minimum leverage ratio required from the Bank is 6%.

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

E. Leverage ratio pursuant to the directive of the Supervisor of Banks (contd.)

A banking corporation is required to comply with the minimum leverage ratio as of January 1, 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 January 1, 2018.

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
A. In consolidated terms (a)			
Tier 1 capital	**34,180**	32,255	32,586
Total exposures	**486,507**	473,817	481,384
Leverage ratio			
Leverage ratio	**7.03%**	6.81%	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	**11.06%**	11.21%	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	**10.23%**	9.42%	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 January 12, 2016, regarding "Operational Streamlining of the Banking System in Israel." Pursuant to the above letter, the reliefs provided for the purposes of the capital adequacy ratios and the leverage ratio in respect of efficiency plans which were approved by the Board of Directors in June 2016 and July 2017 will gradually decrease through June 30, 2021 and June 30, 2022, respectively. The effect of the relief in respect of the efficiency plan on the leverage ratio totaled 0.15% at September 30, 2017 (0.08% and 0.09% at December 31, 2016 and September 30, 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 September 28, 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 April 1, 2015.

In accordance with the transitional provisions, with effect from April 1, 2015 the minimum requirement was set at 60% and will grow to 80% on January 1, 2016 and to 100% on January 1, 2017 and thereafter. However, in a period of financial pressure a banking corporation may fall below these minimum requirements.

In addition, on September 28, 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 April 1, 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.

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	Percentage		
A. In consolidated terms			
Liquidity cover ratio	**122%**	130%	132%
Minimum liquidity cover ratio required by the Supervisor of Banks	**100%**	80%	80%
B. In terms of the Bank			
Liquidity cover ratio	**123%**	128%	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

	September 30		December 31
	2017	2016	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	**197**	295	301
Second year	**201**	193	203
Third year	**136**	176	169
Fourth year	**121**	147	148
Fifth year	**112**	116	117
After five years	**1,152**	1,143	1,160
Total long-term rental contracts	**1,919**	2,070	2,098
(2) Commitments to purchase securities	**769**	671	920
(3) Commitments to invest in buildings, equipment and others	**81**	89	38

	September 30		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS millions		
(4) Credit sale activity			
Book value of credit sold	**56**	918	2,663
Proceeds received in cash	**65**	963	2,723
Deferred gain	**-**	-	(16)
Total net profit from sale of credit[(a)]	**9**	45	44

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 Bank's annual financial statements at December 31, 2016, information was included regarding all the material claims at the date of the said statements. The Note below includes information regarding material claims submitted in the reporting period and after the reporting period, if submitted, as well as changes that occurred regarding material claims submitted in previous reporting periods, and does not include information on unchanged claims reported in Note 26 to the annual financial statements.

In the opinion of the Management of the Bank and the managements of the consolidated companies, based on legal opinions regarding the chances of these claims, including the petitions for approval of class actions, the financial statements included appropriate provisions, where provisions were required in order to cover damages deriving from the aforementioned claims.

Note 10 - Contingent Liabilities and Special Commitments (contd.)

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 March 9, 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 May 14, 2017, the Court approved a settlement arrangement in these proceedings, and thus the action was ended.

   1.2 On March 7, 2016, the US court received a claim filed by a large number of plaintiffs, against dozens of defendants, including: The Bank, Bank Leumi USA and Bank Hapoalim, claiming that the defendants support settlements in such a way that harms Palestinian residents, their property and their rights, inter alia, through bank transfers. The sum of the claim against all defendants combined was originally US$ 34.5 billion and was later reduced to a sum of US$ 1 billion. On August 29, 2017, the US court approved the request for the outright dismissal of the claim, and on September 8, 2017, the plaintiffs filed an appeal on the confirmation of the outright dismissal.

   1.3 On August 17, 2016, a petition was filed for approval of a class action against the Bank, and against nine other banks, for a total amount of 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. On November 7, a judgment was given instructing dismissal of the action, bringing the action to a conclusion.

   1.4 On September 29, 2016, a petition for approval of a class action was filed against the Bank for 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.

   1.5 On December 8, 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 the Antitrust Law. The amount of the alleged damage was estimated by the petitioner, for all the respondents together, in the amount of NIS 500 million.

   1.6 On January 4, 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 Enforcement and Collection Authority, the debt is charged with compound interest at a frequency above that permitted by the agreement between the customers and the Bank and/or by the ruling under which the file was opened by the Enforcement and Collection Authority and/or by law. The Group damage is estimated at NIS 339 million from all the respondents, including NIS 161 million from the Bank. On September 3, 2017, the Central District Court approved the petitioners' request to withdraw from the claim, thus bringing the class action suit to a conclusion.

Note 10 - Contingent Liabilities and Special Commitments (contd.)

1.7 On January 22, 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 NIS 38 and estimates the damage to the group at NIS 1 million, without specifying details.

1.8 On March 29, 2017, a petition was filed for the approval of a class action against the Bank (and also corresponding claims against other banks). The petitioner claims that the Bank is not entitled to collect a "correspondent commission" when transferring foreign currency from a customer account to a foreign bank account, and instead, the petitioner claims that the Bank is entitled to collect a correspondent commission only according to the actual expenses it incurred (the actual amount paid by the Bank to the correspondent). The petitioner claims personal damages in the amount of US$ 30; the amount of the group damage cannot be estimated.

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

2. In addition, there are legal claims pending against the Bank, including petitions for the approval of class actions involving material amounts. 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 September 11, 2017, a petition to approve a class action suit was filed against the Bank, in the amount of about NIS 150 million. The petitioner claims that that the Bank opens accounts under the name of the "house committee", instead of the condominium, as required by law. Moreover, it is claimed that the Bank unlawfully collects commissions from these accounts, does not meet the provisions of the Checks Without Cover Law regarding the identification of customers, and does not provide the apartment owners with access to information pertaining to the bank account.

3. As of the publication date of the financial statements, there were no material changes related to the claims against the Bank's subsidiaries as set forth in Note 26 to the annual report, except for the following:

3.1 On April 28, 2014, a petition for approval of a class action was filed against Leumi Card Ltd. and other credit card companies in the amount of NIS 1.7 billion. The amount of the claim was updated and increased to approximately NIS 7.1 billion. The plaintiff alleges that the interchange commission charged in respect of transactions executed by debit and prepaid cards (as opposed to credit cards), was not approved by the Antitrust Tribunal, and is a restrictive arrangement. Furthermore, according to the petitioner, the arrangement under which proceeds of transactions carried out using these cards are transferred to vendors with a delay of some 20 days is also an unauthorized restrictive arrangement or a discriminating condition in a uniform contract.

On October 16, 2017, the Bank received a claim filed by the petitioner in the Antitrust Tribunal against Leumi Card Ltd. and other credit card companies, as well as against the Bank and other banks as formal respondents. As part of this claim, the court is requested to rule that the interchange commission in respect of said transactions has not been authorized.

Note 10 - Contingent Liabilities and Special Commitments (contd.)

C. On November 2, 2017, a scoping meeting was held with the Enforcement Division of the Financial Conduct Authority ("FCA") for a proceeding at Bank Leumi UK ("BLUK"), regarding controls and systems for the implementation of anti money laundering regulations.

The proceeding which is carried out within the overall powers vested in the FCA is at an initial stage, and therefore the length of the proceeding, and which of the range of measures granted to the FCA will be taken, if at all, are not known. According to the FCA publications, which relate to similar proceedings at banks similar to BLUK, which resulted in measures taken against those banks after it was determined regarding them that there were violations, BLUK's exposure to financial sanctions, if and to the extent imposed, is not expected to be material for Leumi Group.

D. Credit cards

On March 7, 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 (interchange commission) that will exist between clearers and issuers of Visa and Mastercard cards. According to the approved agreement, the interchange commission has decreased gradually to 0.7% from July 2014, according to the outline plan for the reduction of interchange 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 interchange commission in debit card transactions for the years 2019 and thereafter. Regarding immediate debit cards, the Banking Order (Customer Service) (Supervision of service given by an issuer to a clearer in connection with interchange clearing of immediate debit transactions) (Temporary Provision), 2015, was published on August 26, 2015. In the Order, the Governor of the Bank of Israel declared that the service that the issuer gives the clearer regarding interchange clearing of immediate debit transactions is a service subject to supervision regarding the related fee; she determined that the fee will stand at 0.3% of the transaction amount. The validity of the provision is until December 31, 2018.

On July 24, 2017, the Ministry of Finance announced a reduction in merchant commission in Diners and American Express credit cards. 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 Maturity Dates

A. Scope of activity on consolidated basis

	September 30, 2017 (Unaudited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives[(a)]						
Swaps	**-**	**1,790**	**-**	**-**	**-**	**1,790**
Total	**-**	**1,790**	**-**	**-**	**-**	**1,790**
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed interest rate	**-**	**1,790**	**-**	**-**	**-**	**1,790**
b) ALM derivatives[(a)(b)]						
Futures contracts	**-**	**31,296**	**143**	**100,487**	**276**	**132,202**
Forward contracts	**14,774**	**1,006**	**177,677**	**738**	**9**	**194,204**
Exchange-traded option contracts						
Options written	**-**	**106**	**13,124**	**14,383**	**75**	**27,688**
Options purchased	**-**	**106**	**12,874**	**14,383**	**75**	**27,438**
Other option contracts						
Options written	**-**	**7,530**	**23,063**	**3,240**	**162**	**33,995**
Options purchased	**-**	**6,413**	**23,117**	**3,045**	**159**	**32,734**
Swaps	**794**	**281,722**	**26,811**	**36,031**	**238**	**345,596**
Total	**15,568**	**328,179**	**276,809**	**172,307**	**994**	**793,857**
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed interest rate	**-**	**145,305**	**-**	**-**	**-**	**145,305**
c) Other derivatives[(a)]	**-**	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	**-**	**-**	**-**	**-**	**10**	**10**
Spot foreign exchange contracts	**-**	**-**	**9,792**	**-**	**-**	**9,792**
Total	**-**	**-**	**9,792**	**-**	**10**	**9,802**
Grand total	**15,568**	**329,969**	**286,601**	**172,307**	**1,004**	**805,449**

(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 (contd.)

A. Scope of activity on consolidated basis (contd.)

	September 30, 2017 (Unaudited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives[(a)]						
Gross positive fair value	**-**	**19**	**-**	**-**	**-**	**19**
Gross negative fair value	**-**	**13**	**-**	**-**	**-**	**13**
b) ALM derivatives[(a)(b)]						
Gross positive fair value	**401**	**5,340**	**3,150**	**2,025**	**25**	**10,941**
Gross negative fair value	**456**	**5,015**	**3,858**	**1,964**	**24**	**11,317**
c) Other derivatives[(a)]	**-**	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value	**-**	**-**	**-**	**-**	**-** [(d)]	**-**
e) Total						
Gross positive fair value[(c)]	**401**	**5,359**	**3,150**	**2,025**	**25**	**10,960**
Fair value amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Book value of derivative assets	**401**	**5,359**	**3,150**	**2,025**	**25**	**10,960**
Of which: book value of derivative assets not subject to a master netting arrangement or similar arrangements	**57**	**100**	**99**	**945**	**5**	**1,206**
Gross negative fair value[(c)]	**456**	**5,028**	**3,858**	**1,964**	**24**	**11,330**
Fair value amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Book value of derivative liabilities	**456**	**5,028**	**3,858**	**1,964**	**24**	**11,330**
Of which: book value of derivative liabilities not subject to a master netting arrangement or similar arrangements	**-**	**27**	**417**	**118**	**13**	**575**

(a) Excluding credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's assets and liabilities management, not designated for hedging.
(c) Of which: positive gross fair value of assets in respect of embedded derivative instruments in the amount of NIS 6 million; negative gross fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 55 million.
(d) Amount less than NIS 1 million.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

A. Scope of activity on consolidated basis (contd.)

	September 30, 2016 (Unaudited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives[(a)]						
Swaps	-	3,523	-	-	-	3,523
Total	-	3,523	-	-	-	3,523
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed rate of interest	-	3,523	-	-	-	3,523
b) ALM derivatives[(a)(b)]						
Futures contracts	-	78,442	55	57,288	202	135,987
Forward contracts	12,589	5,850	196,796	439	15	215,689
Exchange-traded option contracts						
Options written	-	879	16,396	21,977	118	39,370
Options purchased	-	879	16,418	21,977	118	39,392
Other option contracts						
Options written	-	9,932	12,228	2,545	238	24,943
Options purchased	-	6,369	13,227	2,489	238	22,323
Swaps	576	263,082	27,911	28,343	148	320,060
Total	13,165	365,433	283,031	135,058	1,077	797,764
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed interest rate	-	141,943	-	-	-	141,943
c) Other derivatives[(a)]	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	20	20
Spot foreign exchange contracts	-	-	9,792	-	-	9,792
Total	-	-	9,792	-	20	9,812
Grand total	13,165	368,956	292,823	135,058	1,097	811,099

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

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

A. Scope of activity on consolidated basis (contd.)

	September 30, 2016 (Unaudited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives[(a)]						
Gross positive fair value	-	3	-	-	-	3
Gross negative fair value	-	184	-	-	-	184
b) ALM derivatives[(a)(b)]						
Gross positive fair value	365	6,905	2,944	1,389	26	11,629
Gross negative fair value	425	6,668	3,988	1,379	26	12,486
c) Other derivatives[(a)]	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
e) Total						
Gross positive fair value[(c)]	365	6,908	2,944	1,389	26	11,632
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative assets	365	6,908	2,944	1,389	26	11,632
Of which: book value of derivative assets not subject to a master netting arrangement or similar arrangements	46	269	104	112	-[(d)]	531
Gross negative fair value[(c)]	425	6,852	3,988	1,379	26	12,670
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of derivative liabilities	425	6,852	3,988	1,379	26	12,670
Of which: book value of derivative liabilities not subject to a master netting arrangement or similar arrangements	6	221	334	5[(e)]	-[(e)]	566

(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 36 million.
(d) Amount less than NIS 1 million.
(e) Restated.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

A. Scope of activity on consolidated basis (contd.)

	December 31, 2016 (Audited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives [(a)]						
Swaps	-	3,480	-	-	-	3,480
Total	-	3,480	-	-	-	3,480
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed interest rate	-	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 option contracts						
Options written	-	7,210	12,553	2,530	56	22,349
Options purchased	-	4,186	12,833	2,572	189	19,780
Swaps	572	265,043	26,796	29,441	253	322,105
Total	12,759	322,859	271,426	116,376	853	724,273
Of which: interest rate swap contracts in which the banking corporation agreed to pay a fixed interest rate	-	140,716	-	-	-	140,716
c) Other derivatives [(a)]	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	20	20
Spot foreign exchange contracts	-	-	8,667	-	-	8,667
Total	-	-	8,667	-	20	8,687
Grand total	12,759	326,339	280,093	116,376	873	736,440

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

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

A. Scope of activity on consolidated basis (contd.)

	December 31, 2016 (Audited)					
	Interest contracts					
	NIS - Inflation linked	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives[(a)]						
Gross positive fair value	-	60	-	-	-	60
Gross negative fair value	-	108	-	-	-	108
b) ALM derivatives[(a)(b)]						
Gross positive fair value	339	5,590	3,075	1,571	24	10,599
Gross negative fair value	400	5,179	3,477	1,544	20	10,620
c) Other derivatives[(a)]	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	- [(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[(d)(e)]	- [(e)]	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.
(e) Restated.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

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

	September 30, 2017 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Book balance of derivative assets [(a)(b)]	**153**	**6,770**	**2,019**	**70**	**1,948**	**10,960**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**4,344**	**1,728**	**42**	**779**	**6,893**
Mitigation of credit risk in respect of cash collateral received	**-**	**2,073**	**268**	**28**	**149**	**2,518**
Net amount of derivative assets	**153**	**353**	**23**	**-**	**1,020**	**1,549**
Off-balance sheet credit risk in respect of derivative instruments [(d)]	**354**	**7,099**	**1,668**	**65**	**5,848**	**15,034**
Mitigation of off-balance sheet credit risk	**-**	**1,669**	**820**	**23**	**2,573**	**5,085**
Net off-balance sheet credit risk in respect of derivative instruments [(e)]	**354**	**5,430**	**848**	**42**	**3,275**	**9,949**
Total credit risk in respect of derivative instruments	**507**	**5,783**	**871**	**42**	**4,295**	**11,498**
Book balance of derivative liabilities [(a)(c)]	**94**	**5,172**	**1,970**	**42**	**4,052**	**11,330**
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	**-**	**4,344**	**1,728**	**42**	**779**	**6,893**
Cash collateral pledged	**-**	**513**	**238**	**-**	**1,467**	**2,218**
Net amount of derivative liabilities	**94**	**315**	**4**	**-**	**1,806**	**2,219**

See notes on page 152.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

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

	September 30, 2016 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Book balance of derivative assets [(a)(b)]	110	7,173	2,119	19	2,211	11,632
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	5,780	1,614	19	617	8,030
Mitigation of credit risk in respect of cash collateral received	-	801	260	-	13	1,074
Net amount of derivative assets	110	592	245	-	1,581	2,528
Off-balance sheet credit risk in respect of derivative instruments [(d)]	-	3,753	1,210	69	4,945	9,977
Mitigation of off-balance sheet credit risk	-	1,933	551	42	1,638	4,164
Net off-balance sheet credit risk in respect of derivative instruments [(e)]	-	1,820	659	27	3,307	5,813
Total credit risk in respect of derivative instruments	110	2,412	904	27	4,888	8,341
Book balance of derivative liabilities [(a)(c)]	119	6,801	2,160	44	3,546	12,670
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	5,780	1,614	19	617	8,030
Cash collateral pledged	-	819	290	-	851	1,960
Net amount of derivative liabilities	119	202	256	25	2,078	2,680

See notes on next page.

Note 11 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

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

	December 31, 2016 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
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)(e)]	-	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	-	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 10,954 million (at September 30, 2016 - NIS 11,630 million, at December 31, 2016 – NIS 10,654 million).

(c) Of which a book balance of standalone derivative instruments in the amount of NIS 11,275 million (at September 30, 2016 – NIS 12,634 million, at December 31, 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 nine-month period ended September 30, 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 (contd.)

C. Repayment Dates – Nominal Amounts: Balances

	September 30, 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:					
NIS - Index linked	**945**	**4,237**	**8,091**	**2,295**	**15,568**
Other	**35,981**	**59,254**	**138,765**	**95,969**	**329,969**
Foreign currency contracts	**160,022**	**94,833**	**26,661**	**5,085**	**286,601**
Contracts in respect of shares	**141,145**	**30,019**	**1,143**	**-**	**172,307**
Commodities and other contracts	**642**	**223**	**139**	**-**	**1,004**
Total	**338,735**	**188,566**	**174,799**	**103,349**	**805,449**
Total September 30, 2016 (Unaudited)	368,861	187,247	162,601	92,390	811,099
Total December 31, 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 at December 31, 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 (contd.)

Information on regulatory operating segments – consolidated (contd.)

	Three months ended September 30, 2017												
	Unaudited												
	Activity in Israel											Activity abroad	
	Households												
	Total	Of which: Housing loans	Of which: Credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Finnancial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	NIS millions												
Interest income from outside entities	733	296	72	2	524	193	370	6	183	-	2,011	283	2,294
Interest expense to outside entities	55	-	-	39	18	17	47	76	85	-	337	39	376
Net interest income (expenses)													
From outside entities	678	296	72	(37)	506	176	323	(70)	98	-	1,674	244	1,918
Intersegmental	(33)	(122)	1	58	(20)	5	(17)	87	(95)	-	(15)	15	-
Total interest income, net	645	174	73	21	486	181	306	17	3	-	1,659	259	1,918
Total noninterest income	451	11	243	42	186	83	173	46	204	37	1,222	84	1,306
Total income	1,096	185	316	63	672	264	479	63	207	37	2,881	343	3,224
Provision for credit losses	75	(4)	15	(1)	63	11	(161)	(8)	7	-	(14)	17	3
Operating and other expenses:													
To outside entities	947	66	190	27	346	135	121	67	38	183	1,864	212	2,076
Intersegmental	11	-	11	-	-	-	1	-	(13)	-	(1)	1	-
Total operating and other expenses	958	66	201	27	346	135	122	67	25	183	1,863	213	2,076
Profit (loss) before taxes	63	123	100	37	263	118	518	4	175	(146)	1,032	113	1,145
Provision for (benefit from) taxes on the profit	13	42	27	13	87	41	185	2	46	(43)	344	32	376
Profit (loss) after taxes	50	81	73	24	176	77	333	2	129	(103)	688	81	769
Bank's share in profits of associate companies	-	-	-	-	-	-	-	-	60	-	60	-	60
Net income (loss) before attribution to non-controlling interests	50	81	73	24	176	77	333	2	189	(103)	748	81	829
Net income (loss) due to non-controlling interests	12	-	12	-	1	1	1	-	(1)	(4)	10	(1)	9
Net income (loss) due to shareholders of the Bank	38	81	61	24	175	76	332	2	190	(99)	738	82	820
Average balance of assets (a)	111,234	71,543	12,802	528	50,377	24,348	51,761	484	151,111	18,439	408,282	31,966	440,248
Of which Investments in associate companies (a)	-	-	-	-	-	-	-	-	874	-	874	-	874
Average balance of loans to the public (a)	113,140	73,189	12,714	519	51,397	24,753	53,944	793	-	-	244,546	22,577	267,123
Balance of loans to the public at the end of the reporting period	109,014	70,830	12,545	503	54,626	25,711	55,196	1,303	-	-	246,353	23,277	269,630
Balance of impaired debts	136	-	27	-	509	295	1,451	-	-	-	2,391	742	3,133
Balance of debts in arrears of more than 90 days	788	704	-	-	66	3	24	-	-	-	881	28	909
Average balance of liabilities (a)	116,193	-	202	28,679	45,569	33,087	46,432	62,604	39,932	9,154	381,650	25,681	407,331
Of which: Average balance of deposits from the public (a)	115,928	-	74	28,597	42,254	31,960	43,820	59,149	-	-	321,708	24,339	346,047
Balance of deposits from the public at the end of the reporting period	111,837	-	88	28,616	40,674	32,353	49,546	62,563	-	-	325,589	24,612	350,201
Average balance of risk-weighted assets (a) (b)	86,317	54,746	10,940	781	56,788	34,443	52,330	1,713	20,633	16,102	269,107	30,004	299,111
Balance of risk-weighted assets at the end of the reporting period (b)	86,335	54,758	10,942	813	57,406	35,008	53,524	1,374	19,428	16,529	270,417	30,786	301,203
Average balance of assets under management (a) (c)	84,647	-	-	49,978	30,635	17,194	76,134	600,336	36,889	-	895,813	18,639	914,452
Distribution of interest income (expenses), net:													
Margin on credit granting activity	578	174	73	1	460	156	279	4	359	-	1,837	255	2,092
Margin on deposit taking activity	67	-	-	20	26	24	26	13	(434)	-	(258)	(14)	(272)
Other	-	-	-	-	-	1	1	-	78	-	80	18	98
Total net interest income	645	174	73	21	486	181	306	17	3	-	1,659	259	1,918

Note 12A – Regulatory operating segments (contd.)

Information on regulatory operating segments – consolidated (contd.)

(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 weighted 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 (contd.)

Information on regulatory operating segments – consolidated (contd.)

	Three months ended September 30, 2016 [(d)]												
	Activity in Israel											Activity abroad	
		Households											
	Total	Of which: Housing loans	Of which: Credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Institutional entities	Finnancial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Unaudited												
	NIS millions												
Interest income from outside entities	997	566	62	3	503	175	447	3	214	-	2,342	265	2,607
Interest expense to outside entities	123	-	-	49	19	20	48	133	216	-	608	29	637
Net interest income (expenses)													
From outside entities	874	566	62	(46)	484	155	399	(130)	(2)	-	1,734	236	1,970
Intersegmental	(244)	(397)	(1)	67	(55)	(5)	(109)	144	209	-	7	(7)	-
Total net interest income	630	169	61	21	429	150	290	14	207	-	1,741	229	1,970
Total non-interest income	443	8	230	39	185	80	159	40	479	21	1,446	68	1,514
Total income	1,073	177	291	60	614	230	449	54	686	21	3,187	297	3,484
Provision for credit losses	131	(8)	16	-	60	(26)	(90)	(1)	2	-	76	30	106
Operating and other expenses (income):													
To outside entities	989	66	188	31	361	116	168	78	98	(109)	1,732	223	1,955
Intersegmental	8	-	8	-	-	-	-	-	(61)	-	(53)	53	-
Total operating and other expenses	997	66	196	31	361	116	168	78	37	(109)	1,679	276	1,955
Profit (loss) before taxes	(55)	119	79	29	193	140	371	(23)	647	130	1,432	(9)	1,423
Provision for (benefit from) taxes on the profit	(27)	42	21	10	68	50	130	(9)	253	27	502	12	514
Profit (loss) after taxes	(28)	77	58	19	125	90	241	(14)	394	103	930	(21)	909
Bank's share in profits of associate companies	-	-	-	-	-	-	-	-	21	-	21	-	21
Net income (loss) before attribution to non-controlling interests	(28)	77	58	19	125	90	241	(14)	415	103	951	(21)	930
Net income (loss) due to non-controlling interests	12	-	12	-	2	-	3	(2)	(1)	(3)	11	-	11
Net income (loss) due to shareholders of the Bank	(40)	77	46	19	123	90	238	(12)	416	106	940	(21)	919
Average balance of assets (a)	110,251	73,561	11,159	734	49,859	22,825	53,449	3,069	146,604	11,714	398,505	36,318	434,823
Of which: Investments in associate companies (a)	-	-	-	-	-	-	-	-	137	-	137	-	137
Average balance of loans to the public (a)	111,833	74,492	11,120	739	50,965	23,331	59,034	2,019	-	-	247,921	23,239	271,160
Balance of loans to the public at the end of the reporting period	112,958	75,324	11,356	616	50,460	23,334	55,126	1,168	-	-	243,662	24,233	267,895
Balance of impaired debts	121	-	13	-	859	410	1,985	-	-	-	3,375	699	4,074
Balance of debts in arrears of more than 90 days	795	685	-	-	52	-	28	-	-	-	875	86	961
Average balance of liabilities (a)	112,279	-	153	29,966	39,185	31,424	46,495	56,903	44,125	15,989	376,366	28,103	404,469
Of which: Average balance of deposits from the public (a)	111,106	-	80	29,880	37,781	30,730	45,308	55,085	-	-	309,890	26,786	336,676
Balance of deposits from the public at the end of the reporting period	113,950	-	110	28,921	36,996	31,163	43,904	54,948	-	-	309,882	26,969	336,851
Average balance from risk-weighted assets (a) (b)	86,314	56,160	9,871	798	50,461	35,071	58,968	1,737	18,756	16,748	268,853	31,078	299,931
Balance of risk-weighted assets at the end of the reporting period (b)	86,221	56,099	9,861	775	55,633	33,582	52,649	929	19,516	16,052	265,357	31,616	296,973
Average balance of assets under management (a) (c)	76,176	-	-	50,687	30,498	19,882	67,263	496,915	38,640	-	780,061	20,388	800,449
Distribution of interest income (expenses), net:													
Margin on credit granting activity	558	169	60	3	414	139	279	3	766	-	2,162	221	2,383
Margin on deposit taking activity	72	-	1	18	15	11	10	10	(483)	-	(347)	(33)	(380)
Other	-	-	-	-	-	-	1	1	(76)	-	(74)	41	(33)
Total net interest income	630	169	61	21	429	150	290	14	207	-	1,741	229	1,970

Note 12A – Regulatory operating segments (contd.)

Information on regulatory operating segments – consolidated (contd.)

(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 weighted 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 (contd.)

Information on regulatory operating segments – consolidated (contd.)

	Nine months ended September 30, 2017												
	Activity in Israel											Activity abroad	
	Households												
	Total	Of which: housing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	Unaudited												
	NIS millions												
Interest income from outside entities	2,654	1,362	204	6	1,603	555	1,220	21	604	-	6,663	837	7,500
Interest expense to outside entities	252	-	-	96	41	60	140	316	535	-	1,440	104	1,544
Net interest income (expenses)													
From outside entities	2,402	1,362	204	(90)	1,562	495	1,080	(295)	69	-	5,223	733	5,956
Intersegmental	(443)	(792)	(1)	157	(131)	4	(205)	346	271	-	(1)	1	-
Total interest income	1,959	570	203	67	1,431	499	875	51	340	-	5,222	734	5,956
Total noninterest income (expenses)	1,314	34	692	127	560	240	502	134	669	73	3,619	194	3,813
Total income	3,273	604	895	194	1,991	739	1,377	185	1,009	73	8,841	928	9,769
Provision for credit losses	133	(15)	43	1	197	(18)	(196)	(6)	(4)	-	107	39	146
Operating and other expenses (income):													
To outside entities	2,733	202	555	92	1,056	375	387	202	112	575	5,532	614	6,146
Intersegmental	28	-	28	-	-	-	1	1	(32)	-	(2)	2	-
Total operating and other expenses	2,761	202	583	92	1,056	375	388	203	80	575	5,530	616	6,146
Profit (loss) before taxes	379	417	269	101	738	382	1,185	(12)	933	(502)	3,204	273	3,477
Provision for (benefit from) taxes on the profit	111	144	74	36	254	134	416	(4)	305	(120)	1,132	88	1,220
Profit (loss) after taxes	268	273	195	65	484	248	769	(8)	628	(382)	2,072	185	2,257
Bank's share in profits of associate companies	-	-	-	-	-	-	-	-	85	-	85	-	85
Net income (loss) before attribution to non-controlling interest	268	273	195	65	484	248	769	(8)	713	(382)	2,157	185	2,342
Net income (loss) due to non-controlling interests	31	-	31	-	2	1	2	-	(1)	(10)	25	(1)	24
Net income (loss) due to shareholders of the Bank	237	273	164	65	482	247	767	(8)	714	(372)	2,132	186	2,318
Average balance of assets (a)	109,643	70,906	11,921	525	51,250	24,125	52,206	1,153	154,057	9,376	402,335	34,894	437,229
Of which: Investments in associate companies (a)	-	-	-	-	-	-	-	-	884	-	884	-	884
Average balance of loans to the public (a)	110,973	71,698	11,946	518	51,808	24,343	53,754	1,537	-	-	242,933	23,286	266,219
Balance of loans to the public at the end of the reporting period	109,014	70,830	12,545	503	54,626	25,711	55,196	1,303	-	-	246,353	23,277	269,630
Balance of impaired debts	136	-	27	-	509	295	1,451	-	-	-	2,391	742	3,133
Balance of debts in arrears of more than 90 days	788	704	-	-	66	3	24	-	-	-	881	28	909
Average balance of liabilities (a)	113,675	-	163	29,027	43,659	32,890	49,008	59,220	40,147	10,388	378,014	26,863	404,877
Of which: Average balance of deposits of the public (a)	113,456	-	74	28,930	40,328	31,819	46,555	56,711	-	-	317,799	25,497	343,296
Balance of deposits of the public at the end of the reporting period	111,837	-	88	28,616	40,674	32,353	49,546	62,563	-	-	325,589	24,612	350,201
Average balance from risk-weighted assets (a) (b)	86,127	54,626	10,916	785	53,875	34,436	53,695	1,659	18,667	16,768	266,012	30,784	296,796
Balance of risk-weighted assets at the end of the reporting period (b)	86,335	54,758	10,942	813	57,406	35,008	53,524	1,374	19,428	16,529	270,417	30,786	301,203
Average balance of assets under management (a) (c)	79,413	-	-	49,644	29,985	18,027	77,451	569,747	35,464	-	859,731	18,959	878,690
Distribution of interest income (expenses), net:													
Margin on credit granting activity	1,755	570	203	3	1,359	436	817	12	1,735	-	6,117	719	6,836
Margin on deposit taking activity	204	-	-	64	72	62	56	37	(1,393)	-	(898)	(81)	(979)
Other	-	-	-	-	-	1	2	2	(2)	-	3	96	99
Total net interest income (expense)	1,959	570	203	67	1,431	499	875	51	340	-	5,222	734	5,956

Note 12A – Regulatory operating segments (contd.)

Information on regulatory operating segments – consolidated (contd.)

(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 weighted 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 (contd.)

Information on regulatory operating segments – consolidated (contd.)

	Nine months ended September 30, 2016 (d)												
	Activity in Israel											Activity abroad	
	Households												
	Total	Of which: housing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	NIS millions												
Interest income from outside entities	2,571	1,309	182	8	1,447	504	1,245	13	656	-	6,444	792	7,236
Interest expense to outside entities	284	-	-	93	44	54	133	330	544	-	1,482	95	1,577
Interest income, net													
From outside entities	2,287	1,309	182	(85)	1,403	450	1,112	(317)	112	-	4,962	697	5,659
Intersegmental	(441)	(801)	(3)	148	(137)	(20)	(255)	357	370	-	22	(22)	-
Ttotal net interest income	1,846	508	179	63	1,266	430	857	40	482	-	4,984	675	5,659
Total noninterest income	1,279	26	653	120	547	238	480	124	1,042	39	3,869	215	4,084
Total income	3,125	534	832	183	1,813	668	1,337	164	1,524	39	8,853	890	9,743
Provision for credit losses	329	-	29	1	126	(66)	(527)	(12)	(53)	-	(202)	31	(171)
Operating and other expenses (income):													
To outside entities	2,880	191	534	96	1,056	356	467	212	171	410	5,648	652	6,300
Intersegmental	17	-	17	-	-	-	-	1	(71)	-	(53)	53	-
Total operating and other expenses	2,897	191	551	96	1,056	356	467	213	100	410	5,595	705	6,300
Profit (loss) before taxes	(101)	343	252	86	631	378	1,397	(37)	1,477	(371)	3,460	154	3,614
Provision for (benefit from) taxes on the profit	(62)	121	67	31	223	134	496	(14)	577	(144)	1,241	51	1,292
Profit (loss) after taxes	(39)	222	185	55	408	244	901	(23)	900	(227)	2,219	103	2,322
Bank's in profits of associate companies	-	-	-	-	-	-	-	-	56	-	56	-	56
Net income (loss) before attribution to non-controlling interest	(39)	222	185	55	408	244	901	(23)	956	(227)	2,275	103	2,378
Net income (loss) due to non-controlling interests	35	-	35	-	4	1	3	(2)	(1)	(10)	30	-	30
Net income (loss) due to shareholders of the Bank	(74)	222	150	55	404	243	898	(21)	957	(217)	2,245	103	2,348
Average balance of assets (a)	111,192	74,295	10,670	572	49,042	23,053	56,678	2,346	143,017	9,396	395,296	35,312	430,608
Of which: Investments in associate companies (a)	-	-	-	-	-	-	-	-	706	-	706	-	706
Average balance of loans to the public (a)	111,951	74,761	10,662	570	49,586	23,277	59,511	1,554	-	-	246,449	23,158	269,607
Balance of loans to the public at the end of the reporting period	112,958	75,324	11,356	616	50,460	23,334	55,126	1,168	-	-	243,662	24,233	267,895
Balance of impaired debts	121	-	13	-	859	410	1,985	-	-	-	3,375	699	4,074
Balance of debts in arrears of more than 90 days	795	685	-	-	52	-	28	-	-	-	875	86	961
Average balance of liabilities (a)	112,059	-	157	29,193	38,822	31,682	49,212	56,459	44,994	11,150	373,571	27,517	401,088
Of which: Average balance of deposits of the public (a)	111,234	-	75	29,097	36,143	30,549	46,783	55,327	-	-	309,133	26,044	335,177
Balance of deposits from the public at the end of the reporting period	113,950	-	110	28,921	36,996	31,163	43,904	54,948	-	-	309,882	26,969	336,851
Average balance of risk-weighted assets (a) (b)	85,489	55,623	9,777	851	51,780	34,849	59,941	1,858	18,997	15,848	269,613	30,713	300,326
Balance of risk-weighted assets at the end of the reporting period (b)	86,221	56,099	9,861	775	55,633	33,582	52,649	929	19,516	16,052	265,357	31,616	296,973
Average balance of assets under management (a) (c)	77,562	-	-	50,583	28,536	20,015	67,814	493,726	38,441	-	776,677	19,637	796,314
Distribution of interest income (expenses), net:													
Margin on credit granting activity	1,655	508	177	6	1,221	397	826	10	1,768	-	5,883	695	6,578
Margin on deposit taking activity	191	-	2	57	45	33	30	28	(1,232)	-	(848)	(96)	(944)
Other	-	-	-	-	-	-	1	2	(54)	-	(51)	76	25
Total net interest income	1,846	508	179	63	1,266	430	857	40	482	-	4,984	675	5,659

Note 12A – Regulatory operating segments (contd.)

Information on regulatory operating segments – consolidated (contd.)

(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 weighted 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 (contd.)

Information on regulatory operating segments – consolidated (contd.)

	For the year ended December 31, 2016												
	Activity in Israel											Activity abroad	
		Households											
	Total	Of which: houing loans	Of which: credit cards	Private banking	Small and micro businesses	Mid-sized businesses	Large businesses	Instiitutional entities	Financial management segment	Other segment	Total activity in Israel	Total activity abroad	Total
	NIS millions												
Interest income from outside entities	3,331	1,646	245	11	1,958	683	1,626	19	846	-	8,474	1,078	9,552
Interest expense to outside entities	394	-	-	157	80	80	166	419	588	-	1,884	142	2,026
Interest income, net													
From outside entities	2,937	1,646	245	(146)	1,878	603	1,460	(400)	258	-	6,590	936	7,526
Intersegmental	(441)	(943)	(4)	232	(179)	(32)	(314)	457	307	-	30	(30)	-
Total net interest income	2,496	703	241	86	1,699	571	1,146	57	565	-	6,620	906	7,526
Total noninterest income	1,712	45	872	161	725	318	641	163	1,306	139	5,165	243	5,408
Total income	4,208	748	1,113	247	2,424	889	1,787	220	1,871	139	11,785	1,149	12,934
Provision for credit losses	447	(10)	26	1	184	(120)	(573)	(33)	(64)	-	(158)	33	(125)
Operating and other expenses (income):													
To outside entities	3,904	268	715	131	1,430	501	577	284	203	605	7,635	945	8,580
Intersegmental	23	1	22	-	-	-	1	1	(26)	-	(1)	1	-
Total operating and other expenses	3,927	269	737	131	1,430	501	578	285	177	605	7,634	946	8,580
Profit (loss) before taxes	(166)	489	350	115	810	508	1,782	(32)	1,758	(466)	4,309	170	4,479
Provision for (benefit from) taxes on the profit	(91)	174	95	42	287	179	633	(11)	675 (d)	(67)	1,647	70 (d)	1,717
Profit (loss) after taxes	(75)	315	255	73	523	329	1,149	(21)	1,083	(399)	2,662	100	2,762
Bank's share in profits of associate companies	-	-	-	-	-	-	-	-	66	-	66	-	66
Net income (loss) before attribution to non-controlling interest	(75)	315	255	73	523	329	1,149	(21)	1,149	(399)	2,728	100	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	(117)	315	213	73	519	327	1,145	(21)	1,150	(385)	2,691	100	2,791
Average balance of assets (d)	112,792	74,695	10,797	601	48,682	23,885	59,028	1,591	140,102	10,432	397,113	35,692	432,805
Of which: Investments in associate companies (a)	-	-	-	-	-	-	-	-	1,341	-	1,341	-	1,341
Average balance of loans to the public (a)	111,887	74,695	10,781	585	48,513	24,077	59,232 (d)	1,591	-	-	245,885	23,426	269,311
Balance of loans to the public at the end of the reporting period	110,719	73,037	11,170	615	50,847	24,178	53,659	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	719	-	-	76	3	19	-	-	-	939	64	1,003
Average balance of liabilities (d)	111,514	-	141	29,199	39,692	32,990	50,087	57,162	42,993	11,482	375,119	27,717	402,836
Of which: Average balance of deposits of the public (d)	110,683	-	79	29,188	37,429	31,891	46,906	54,836	-	-	310,933	26,276	337,209
Balance of deposits from the public at the end of the reporting period	114,948	-	68	28,696	39,866 (d)	33,026 (d)	47,735	55,862 (d)	-	-	320,133	26,721	346,854
Average balance of risk-weighted assets (a) (b)	85,861	53,842	9,651	892	46,207	32,714	62,614 (d)	1,118	21,880	16,338	267,624	30,814	298,438
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)	76,742	-	-	50,439	27,577	19,999	69,172	499,364	37,557	-	780,850	19,874	800,724
Distribution of interest income (expenses), net:													
Margin on credit granting activity	2,240	703	241	6	1,634	526	1,105	15	2,229	-	7,755	942	8,697
Margin on deposit taking activity	256	-	-	80	65	45	40	39	(1,623)	-	(1,098)	(126)	(1,224)
Other	-	-	-	-	-	-	1	3	(41)	-	(37)	90	53
Total net interest income	2,496	703	241	86	1,699	571	1,146	57	565	-	6,620	906	7,526

Note 12A – Regulatory operating segments (contd.)

Information on regulatory operating segments – consolidated (contd.)

(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 weighted 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 December 31, 2016.

Below is a condensed summary of operating results by management approach

	Three months ended September 30, 2017 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			
Net interest income	1,007	265	151	117	53	(3)	81	247	1,918
Noninterest income (expenses)	454	106	64	79	128	(13)	313	175	1,306
Total income (expenses)	1,461	371	215	196	181	(16)	394	422	3,224
Provision for credit losses	116	17	(23)	(140)	1	(8)	19	21	3
Total operating and other expenses	1,057	192	67	31	68	202	246	213	2,076
Profit (loss) before tax	288	162	171	305	112	(210)	129	188	1,145
Tax expenses (income)	101	56	60	107	39	(51)	40	24	376
Net income (loss) due to the Bank's shareholders	187	106	111	198	74	(159)	139	164	820
Balances at September 30, 2017									
Loans to the public, net	137,651	36,454	32,960	20,056	4,079	3,443	8,805	22,910	266,358
Deposits from the public	191,263	41,736	20,901	5,484	66,066	52	88	24,611	350,201
Assets under management	188,514	24,693	21,016	1,694	410,990	23,114	245,875	18,842	934,738

	Three months ended September 30, 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	954	229	123	132	225	15	63	229	1,970
Noninterest income	444	100	49	79	506	66	297	(27)	1,514
Total income (expenses)	1,398	329	172	211	731	81	360	202	3,484
Provision for credit losses	226	(19)	(32)	(78)	(12)	(7)	9	19	106
Total operating and other expenses (income)	1,136	181	102	45	148	(106)	226	223	1,955
Profit (loss) before tax	36	167	102	244	595	194	125	(40)	1,423
Tax expenses	11	56	32	81	206	81	33	14	514
Net income (loss) due to the Bank's shareholders	25	111	70	163	392	113	99	(54)	919
Balances at September 30, 2016									
Loans to the public, net	140,511	34,036	29,507	22,283	3,342	3,401	7,452	23,836	264,368
Deposits from the public	187,440	39,458	18,077	6,887	57,867	42	110	26,970	336,851
Assets under management	178,603	26,297	18,402	1,812	356,959	24,178	185,614	20,094	811,959

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

Note 12B – Operating segments – Management Approach (contd.)

Below is a condensed summary of operating results by management approach (contd.):

	Nine months ended September 30, 2017 (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate	Real Estate	Financial Management	Other			
Net interest income	**3,026**	**748**	**435**	**337**	**468**	**(2)**	**210**	**734**	**5,956**
Noninterest income	**1,351**	**312**	**173**	**244**	**508**	**91**	**915**	**219**	**3,813**
Total income	**4,377**	**1,060**	**608**	**581**	**976**	**89**	**1,125**	**953**	**9,769**
Provision for credit losses	**325**	**26**	**(88)**	**(175)**	**(15)**	**(16)**	**50**	**39**	**146**
Total operating and other expenses	**3,136**	**524**	**204**	**96**	**212**	**623**	**737**	**614**	**6,146**
Profit (loss) before tax	**916**	**510**	**492**	**660**	**779**	**(518)**	**338**	**300**	**3,477**
Tax expenses (income)	**321**	**178**	**172**	**231**	**273**	**(129)**	**94**	**80**	**1,220**
Net income (loss) due to the Bank's shareholders	**595**	**332**	**320**	**429**	**506**	**(389)**	**305**	**220**	**2,318**
Balances at September 30, 2017									
Loans to the public, net	**137,651**	**36,454**	**32,960**	**20,056**	**4,079**	**3,443**	**8,805**	**22,910**	**266,358**
Deposits from the public	**191,263**	**41,736**	**20,901**	**5,484**	**66,066**	**52**	**88**	**24,611**	**350,201**
Assets under management	**188,514**	**24,693**	**21,016**	**1,694**	**410,990**	**23,114**	**245,875**	**18,842**	**934,738**

	Nine months ended September 30, 2016 (b) (Unaudited)								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate[a]	Real Estate[a]	Financial Management	Other			
Net interest income	2,790	667	384	400	543	15	169	691	5,659
Noninterest income (expenses)	1,319	302	160	255	603	600	858	(13)	4,084
Total income	4,109	969	544	655	1,146	615	1,027	678	9,743
Provision for credit losses	521	(20)	(335)	(309)	(41)	(13)	24	2	(171)
Total operating and other expenses	3,323	520	279	134	296	426	671	651	6,300
Profit before tax	265	469	600	830	891	202	332	25	3,614
Tax expenses (income)	93	164	210	291	312	(21)	191	52	1,292
Net income due to the Bank's shareholders	172	305	390	539	583	223	163	(27)	2,348
Balances at September 30, 2016									
Loans to the public, net	140,511	34,036	29,507	22,283	3,342	3,401	7,452	23,836	264,368
Deposits from the public	187,440	39,458	18,077	6,887	57,867	42	110	26,970	336,851
Assets under management (c)	178,603	26,297	18,402	1,812	356,959	24,178	185,614	20,094	811,959

Note 12B – Operating segments – Management Approach (contd.)

Below is a condensed summary of operating results by management approach (contd.):

	For the year ended December 31, 2016 (Audited)								
	NIS millions								
	Bank						Subsidiaries in Israel	Subsidiaries abroad	Total
	Banking	Commercial	Corporate[(a)]	Real Estate[(a)]	Financial Management	Other			
Interest income (expenses), 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 before tax	269	667	750	1,085	1,200	80	425	3	4,479
Tax expenses	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
Balances at December 31, 2016									
Loans to the public, net (b)	138,496	34,089	30,238	21,229	3,779	3,152	7,407	23,567	261,957
Deposits from the public	191,156	41,698	19,772	7,702	59,696	40	68	26,722	346,854
Assets under management (c)	176,638	26,781	18,607	1,814	365,544	25,503	189,681	19,244	823,812

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

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

	Three months ended September 30, 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	**2,546**	**457**	**772**	**3,775**	**1**	**3,776**
Provision for credit losses	**(68)**	**(5)**	**76**	**3**	**-**	**3**
Accounting write-offs	**(152)**	**(2)**	**(129)**	**(283)**	**-**	**(283)**
Collection of debts written off in previous years	**189**	**-**	**80**	**269**	**-**	**269**
Net accounting write-offs	**37**	**(2)**	**(49)**	**(14)**	**-**	**(14)**
Adjustments from translation of financial statements	**4**	**(1)**	**(3)**	**-**	**-**	**-**
Balance of allowance for credit losses at end of the reporting period[1]	**2,519**	**449**	**796**	**3,764**	**1**	**3,765**
[1]Of which: in respect of off-balance sheet credit instruments	**456**	**-**	**36**	**492**	**-**	**492**

	Three months ended September 30, 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	2,717	513	779	4,009	2	4,011
Provision for credit losses	11	(5)	100	106	-	106
Accounting write-offs	(146)	(22)	(210)	(378)	-	(378)
Collection of debts written off in previous years	166	-	112	278	-	278
Net accounting write-offs	20	(22)	(98)	(100)	-	(100)
Adjustments from translation of financial statements	(1)	-	-	(1)	-	(1)
Balance of allowance for credit losses at end of the reporting period[1]	2,747	486	781	4,014	2	4,016
[1]Of which: in respect of off-balance sheet credit instruments	449	-	38	487	-	487

(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.

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 (contd.)

1. Change in balance of allowance for credit losses (contd.)

	Nine months ended September 30, 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	**2,685**	**473**	**823**	**3,981**	**1**	**3,982**
Provision for credit losses	**16**	**(18)**	**148**	**146**	**-**	**146**
Accounting write-offs	**(586)**	**(6)**	**(446)**	**(1,038)**	**-**	**(1,038)**
Collection of debts written off in previous years	**417**	**-**	**274**	**691**	**-**	**691**
Net accounting write-offs	**(169)**	**(6)**	**(172)**	**(347)**	**-**	**(347)**
Adjustments from translation of financial statements	**(13)**	**-**	**(3)**	**(16)**	**-**	**(16)**
Balance of allowance for credit losses at end of the reporting period[1]	**2,519**	**449**	**796**	**3,764**	**1**	**3,765**
[1]Of which: in respect of off-balance sheet credit instruments	**456**	**-**	**36**	**492**	**-**	**492**

	Nine months ended September 30, 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 (b)	513	659 (b)	4,153	3	4,156
Provision for credit losses	(501) (b)	1	330 (b)	(170)	(1)	(171)
Accounting write-offs	(367)	(27)	(516)	(910)	-	(910)
Collection of debts written off in previous years	638	-	309	947	-	947
Net accounting write-offs	271	(27)	(207)	37	-	37
Adjustments from translation of financial statements	(4)	(1)	(1)	(6)	-	(6)
Balance of allowance for credit losses at end of the reporting period[1]	2,747	486	781	4,014	2	4,016
[1]Of which: in respect of off-balance sheet credit instruments	449	-	38	487	-	487

(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) Reclassified.

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

A. Debts[(a)] and off-balance sheet credit instruments (contd.)

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

	September 30, 2017 (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	**111,306**	**40**	**658**	**112,004**	**9,931**	**121,935**
Examined on a collective basis[1]	**41,152**	**78,096**	**38,378**	**157,626**	**1,090**	**158,716**
[1]Of which: the allowance was calculated by extent of arrears	**983** [(c)]	**77,617**	**-**	**78,600**	**-**	**78,600**
Total debts(a)	**152,458**	**78,136**	**39,036**	**269,630**	**11,021**	**280,651**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**1,629**	**5**	**99**	**1,733**	**1**	**1,734**
Examined on a collective basis[2]	**434**	**444**	**661**	**1,539**	**-**	**1,539**
[2]Of which the allowance was calculated by extent of arrears	**-**	**442** [(b)]	**-**	**442**	**-**	**442**
Total allowance for credit losses[3]	**2,063**	**449**	**760**	**3,272**	**1**	**3,273**
[3]Of which in respect of impaired debts	**489**	**-**	**30**	**519**	**-**	**519**

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

Note

(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 285 million at September 30, 2017 (September 30, 2016 – an amount of NIS 300 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 (contd.)

A. Debts(a) and off-balance sheet credit instruments (contd.)

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 (contd.)

	December 31, 2016 (Audited)					
	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	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]	378 (d)	467	730 (d)	1,575	-	1,575
[2]Of which the allowance was calculated by extent of arrears	-	462 (b)	-	462	-	462
Total allowance for credit losses[3]	2,233	473	787	3,493	1	3,494
[3]Of which in respect of impaired debts	671	-	12	683	-	683

(a) Loans to the public, loan 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 (contd.)

B. Debts [(a)]

1. Credit quality and arrears

	September 30, 2017 (Unaudited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)(h)	In arrears of 30 to 89 days (e)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction (g)	**17,170**	**223**	**230**	**17,623**	**25**	**48**
Construction & real estate - real estate activities (g)	**23,365**	**143**	**579**	**24,087**	**7**	**24**
Financial services	**10,472**	**6**	**4**	**10,482**	**2**	**7**
Commercial - other	**68,663**	**1,367**	**1,416**	**71,446**	**59**	**155**
Total commercial	**119,670**	**1,739**	**2,229**	**123,638**	**93**	**234**
Private individuals - housing loans	**76,904**	**704** [(f)]	**-**	**77,608**	**704**	**497**
Private individuals - other	**37,917**	**480**	**136**	**38,533**	**84**	**238**
Total public - activity in Israel	**234,491**	**2,923**	**2,365**	**239,779**	**881**	**969**
Israeli banks	**1,589**	**-**	**-**	**1,589**	**-**	**-**
Government of Israel	**150**	**-**	**-**	**150**	**-**	**-**
Total activity in Israel	**236,230**	**2,923**	**2,365**	**241,518**	**881**	**969**
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	**9,769**	**63**	**238**	**10,070**	**1**	**-**
Commercial - other	**17,510**	**755**	**485**	**18,750**	**27**	**18**
Total commercial	**27,279**	**818**	**723**	**28,820**	**28**	**18**
Private individuals	**985**	**1**	**45**	**1,031**	**-**	**2**
Total public - activity abroad	**28,264**	**819**	**768**	**29,851**	**28**	**20**
Foreign banks	**8,737**	**-**	**-**	**8,737**	**-**	**-**
Foreign governments	**545**	**-**	**-**	**545**	**-**	**-**
Total activity abroad	**37,546**	**819**	**768**	**39,133**	**28**	**20**
Total public	**262,755**	**3,742**	**3,133**	**269,630**	**909**	**989**
Total banks	**10,326**	**-**	**-**	**10,326**	**-**	**-**
Total governments	**695**	**-**	**-**	**695**	**-**	**-**
Total	**273,776**	**3,742**	**3,133**	**280,651**	**909**	**989**

See notes on page 175.

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

B. Debts[(a)] (contd.)

1. Credit quality and arrears (contd.)

	September 30, 2016 (Unaudited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	15,732	255	194	16,181	19	41
Construction & real estate - real estate activities	22,944	347	716	24,007	10	15
Financial services	9,532	4	514	10,050	2	2
Commercial - other	64,826	1,810	1,816	68,452	49	127
Total commercial	113,034	2,416	3,240	118,690	80	185
Private individuals - housing loans	79,897	697 (f)	-	80,594	685	466
Private individuals - other	37,500	484	121	38,105	110	229
Total public - activity in Israel	230,431	3,597	3,361	237,389	875	880
Israeli banks	2,179	-	-	2,179	-	-
Government of Israel	226	-	-	226	-	-
Total activity in Israel	232,836	3,597	3,361	239,794	875	880
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	9,391	25	339	9,755	26	17
Commercial - other	18,391	424	324	19,139	58	179
Total commercial	27,782	449	663	28,894	84	196
Private individuals	1,560	2	50	1,612	2	28
Total public - activity abroad	29,342	451	713	30,506	86	224
Foreign banks	9,617	-	-	9,617	-	-
Foreign governments	397	-	-	397	-	-
Total activity abroad	39,356	451	713	40,520	86	224
Total public	259,773	4,048	4,074	267,895	961	1,104
Total banks	11,796	-	-	11,796	-	-
Total governments	623	-	-	623	-	-
Total	272,192	4,048	4,074	280,314	961	1,104

See notes on page 175.

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

B. Debts[(a)] (contd.)

1. Credit quality and arrears (contd.)

	December 31, 2016 (Audited)					
		Problem debts (b)			Unimpaired debts - additional information	
	Non problematic	Not impaired	Impaired (c)	Total	In arrears of 90 days or more (d)	In arrears of 30 to 89 days (e)
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	15,037	275	264	15,576	19	58
Construction & real estate - real estate activities	22,881	360	637	23,878	12	35
Financial services	10,390	5	459	10,854	2	2
Commercial - other	65,119	1,745	1,550	68,414	65	144
Total commercial	113,427	2,385	2,910	118,722	98	239
Private individuals - housing loans	77,926	719 (f)	-	78,645	719	530
Private individuals - other	37,502	531	108	38,141	122	252
Total public - activity in Israel	228,855	3,635	3,018	235,508	939	1,021
Israeli banks	1,742	-	-	1,742	-	-
Government of Israel	206	-	-	206	-	-
Total activity in Israel	230,803	3,635	3,018	237,456	939	1,021
Activity of borrowers abroad						
Public - commercial						
Construction & real estate (g)	9,210	5	325	9,540	3	14
Commercial - other	18,835	405	260	19,500	60	56
Total commercial	28,045	410	585	29,040	63	70
Private individuals	851	1	50	902	1	3
Total public - activity abroad	28,896	411	635	29,942	64	73
Foreign banks	9,654	-	-	9,654	-	-
Foreign governments	436	-	-	436	-	-
Total activity abroad	38,986	411	635	40,032	64	73
Total public	257,751	4,046	3,653	265,450	1,003	1,094
Total banks	11,396	-	-	11,396	-	-
Total governments	642	-	-	642	-	-
Total	269,789	4,046	3,653	277,488	1,003	1,094

See notes on next page.

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

1. Credit quality and arrears (contd.)

Notes:

(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) 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 620 million were classified as problem debts that are not impaired (September 30, 2016 – NIS 584 million, December 31, 2016 – NIS 674 million).

(f) Including balance of housing loans in the amount of NIS 93 million (September 30, 2016 – NIS 119 million, December 31, 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) 2.6% of credit for income generating properties granted by the Construction and Real Estate Division of the Bank has LTV rates exceeding 85%.

(h) The balance of unimpaired debits in arrears of 90 days or more, at September 30, 2017, NIS 875 million, is credit given by the Bank, of which NIS 171 million is in respect of non-housing loans, and about NIS 704 million is in respect of housing loans, of which NIS 173 million is in arrears of up to 149 days, NIS 109 million is in arrears of 150-249 days, and the balance is in respect of a loan in arrears of 250 days or more.

Credit quality – status of debts in arrears

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 (contd.)

B. Debts[(a)] (contd.)
2. Additional information on impaired debts
a. Impaired debts and individual allowance

	September 30, 2017 (Unaudited)				
	Balance[(b)] of impaired debts for which there is an andividual allowance[(c)]	Balance of individual allowance[(c)]	Balance[(b)] of impaired debts for which there is an andividual allowance[(c)]	Total balance[(b)] of impaired debts	Principal contractual balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	**45**	**21**	**185**	**230**	**740**
Construction & real estate - real estate activities	**64**	**52**	**515**	**579**	**1,567**
Financial services	**3**	**1**	**1**	**4**	**453**
Commercial - other	**793**	**235**	**623**	**1,416**	**4,434**
Total commercial	**905**	**309**	**1,324**	**2,229**	**7,194**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - other	**42**	**21**	**94**	**136**	**2,345**
Total public - activity in Israel	**947**	**330**	**1,418**	**2,365**	**9,539**
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	**171**	**93**	**67**	**238**	**398**
Commercial - other	**282**	**87**	**203**	**485**	**844**
Total commercial	**453**	**180**	**270**	**723**	**1,242**
Private individuals	**14**	**9**	**31**	**45**	**105**
Total public - activity abroad	**467**	**189**	**301**	**768**	**1,347**
Total public	**1,414**	**519**	**1,719**	**3,133**	**10,886**
Of which:					
Measured by present value of cash flows	**1,065**	**407**	**1,142**	**2,207**	
Debts under troubled debt restructuring	**436**	**186**	**1,240**	**1,676**	

(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) 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 (contd.)

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

a. Impaired debts and individual allowance (contd.)

	September 30, 2016 (Unaudited)				
	Balance[(b)] of impaired debts for which there is an andividual allowance[(c)]	Balance of individual allowance[(c)]	Balance[(b)] of impaired debts for which there is an andividual allowance[(c)]	Total balance[(b)] of impaired debts	Principal contractual balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	114	19	80	194	612
Construction & real estate - real estate activities	157	76	559	716	1,837
Financial services	2	- (d)	512	514	1,009
Commercial - other	862	352	954	1,816	4,173
Total commercial	1,135	447	2,105	3,240	7,631
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	46	15	75	121	388
Total public - activity in Israel	1,181	462	2,180	3,361	8,019
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	233	118	106	339	473
Commercial - other	257	82	67	324	637
Total commercial	490	200	173	663	1,110
Private individuals	14	9	36	50	108
Total public - activity abroad	504	209	209	713	1,218
Total public	1,685	671	2,389	4,074	9,237
Of which:					
Measured by present value of cash flows	1,403	486	1,293	2,696	
Debts under troubled debt restructuring	1,191	148	714	1,905	

(a) 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) Recorded balance of debt.
(c) Individual allowance for credit losses.
(d) Amount less than NIS 1 million.

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

B. Debts[a] (contd.)

2. Additional information on impaired debts (contd.)

a. Impaired debts and individual allowance (contd.)

	December 31, 2016 (Audited)				
	Balance[b] of impaired debts for which there is an andividual allowance[c]	Balance of individual allowance[c]	Balance[b] of impaired debts for which there is an andividual allowance[c]	Total balance[b] of impaired debts	Principal contractual balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	54	24	210	264	790
Construction & real estate - real estate activities	132	76	505	637	1,773
Financial services	1	1	458	459	958
Commercial - other	638	390	912	1,550	4,630
Total commercial	825	491	2,085	2,910	8,151
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	20	3	88	108	2,199
Total public - activity in Israel	845	494	2,173	3,018	10,350
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	216	107	109	325	467
Commercial - other	180	73	80	260	587
Total commercial	396	180	189	585	1,054
Private individuals	16	9	34	50	108
Total public - activity abroad	412	189	223	635	1,162
Total public	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) 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) 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 (contd.)

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

b. Average balance and interest income

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Average balance of impaired debts[(b)]	Interest income recorded[(c)]	Of which: recorded on cash basis	Average balance of impaired debts[(b)]	Interest income recorded[(c)]	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**249**	**1**	**-**	312	-	-
Construction & real estate - real estate activities	**618**	**3**	**3**	693	2	1
Financial services	**325**	**8**	**8**	111	1	1
Commercial - other	**1,497**	**6**	**2**	1,662	6	3
Total commercial	**2,689**	**18**	**13**	2,778	9	5
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**119**	**1**	**-**	149	1	-
Total public - activity in Israel	**2,808**	**19**	**13**	2,927	10	5
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**285**	**2**	**2**	382	1	1
Commercial - other	**345**	**1**	**1**	318	1	2
Total commercial	**630**	**3**	**3**	700	2	3
Private individuals	**32**	**-**	**-**	46	-	-
Total public - activity abroad	**662**	**3**	**3**	746	2	3
Total public	**3,470**	**22**	**16**	3,673	12	8

(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) 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 September 30, 2017 of NIS 70 million (September 30, 2016 – NIS 84 million).

(e) Restated.

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

B. Debts[a] (contd.)

2. Additional information on impaired debts (contd.)

b. Average balance and interest income (contd.)

	Nine months ended September 30, 2017			Nine months ended September 30, 2016[e]		
	Average balance of impaired debts[b]	Interest income recorded[c]	Of which: recorded on cash basis	Average balance of impaired debts[b]	Interest income recorded[c]	Of which: recorded on cash basis
	Unaudited					
	NIS millions					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**246**	**2**	**1**	294	4	4
Construction & real estate - real estate activities	**612**	**10**	**8**	696	6	4
Financial services	**279**	**8**	**8**	168	1	1
Commercial - other	**1,485**	**17**	**6**	1,684	18	13
Total commercial	**2,622**	**37**	**23**	2,842	29	22
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**121**	**4**	**1**	145	1	-
Total public - activity in Israel	**2,743**	**41**	**24**	2,987	30	22
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**279**	**4**	**4**	371	5	5
Commercial - other	**371**	**3**	**3**	313	6	6
Total commercial	**650**	**7**	**7**	684	11	11
Private individuals	**32**	**-**	**-**	44	4	4
Total public - activity abroad	**682**	**7**	**7**	728	15	15
Total public	**3,425**	**48**[d]	**31**	3,715	45[d]	37

(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) 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 six-month period that ended September 30, 2017 of NIS 229 million (September 30, 2016 – NIS 245 million).

(e) Restated.

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

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring[(d)]

	September 30, 2017				September 30, 2016			
	Not accruing interest income	Accruing in arrears of 30 to 89 days[(b)]	Accruing not in arrears[(b)]	Total[(c)]	Not accruing interest income	Accruing in arrears of 30 to 89 days[(b)]	Accruing not in arrears[(b)]	Total[(c)]
	Unaudited							
	NIS millions							
Activity of borrowers in Israel								
Public - commercial								
Construction & real estate - construction	**165**	**1**	**5**	**171**	21	-	17	38
Construction & real estate - real estate activities	**341**	**-**	**36**	**377**	388	-	53	441
Financial services	**-**	**-**	**1**	**1**	305	-	1	306
Commercial - other	**396**	**1**	**229**	**626**	418	6	226	650
Total commercial	**902**	**2**	**271**	**1,175**	1,132	6	297	1,435
Private individuals - housing loans	**-**	**-**	**-**	**-**	-	-	-	-
Private individuals - other	**45**	**1**	**21**	**67**	52	1	19	72
Total public - activity in Israel	**947**	**3**	**292**	**1,242**	1,184	7	316	1,507
Israeli banks	**-**	**-**	**-**	**-**	-	-	-	-
Government of Israel	**-**	**-**	**-**	**-**	-	-	-	-
Total activity in Israel	**947**	**3**	**292**	**1,242**	1,184	7	316	1,507
Activity of borrowers abroad								
Public - commercial								
Construction & real estate	**107**	**-**	**88**	**195**	154	-	99	253
Commercial - other	**30**	**-**	**189**	**219**	29	-	91	120
Total commercial	**137**	**-**	**277**	**414**	183	-	190	373
Private individuals	**4**	**-**	**16**	**20**	4	-	21	25
Total public - activity abroad	**141**	**-**	**293**	**434**	187	-	211	398
Foreign banks	**-**	**-**	**-**	**-**	-	-	-	-
Foreign governments	**-**	**-**	**-**	**-**	-	-	-	-
Total activity abroad	**141**	**-**	**293**	**434**	187	-	211	398
Total public	**1,088**	**3**	**585**	**1,676**	1,371	7	527	1,905
Total banks	**-**	**-**	**-**	**-**	-	-	-	-
Total governments	**-**	**-**	**-**	**-**	-	-	-	-
Total	**1,088**	**3**	**585**	**1,676**	1,371	7	527	1,905

(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) 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 September 30, 2017 to NIS 18 million (at September 30, 2016 – NIS 24 million).

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

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring [(d)] (contd.)

	December 31, 2016 (Audited)			
	Not accruing interest income	Accruing in arrears of 30 to 89 days[(b)]	Accruing not in arrears[(b)]	Total[(c)]
	NIS millions			
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	199	-	13	212
Construction & real estate - real estate activities	346	4	44	394
Financial services	405	-	-	405
Commercial - other	395	2	217	614
Total commercial	1,345	6	274	1,625
Private individuals - housing loans	-	-	-	-
Private individuals - other	52	2	23	77
Total public - activity in Israel	1,397	8	297	1,702
Israeli banks	-	-	-	-
Government of Israel	-	-	-	-
Total activity in Israel	1,397	8	297	1,702
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	152	-	83	235
Commercial - other	62	-	49	111
Total commercial	214	-	132	346
Private individuals	5	-	5	10
Total public - activity abroad	219	-	137	356
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total activity abroad	219	-	137	356
Total public	1,616	8	434	2,058
Total banks	-	-	-	-
Total governments	-	-	-	-
Total	1,616	8	434	2,058

(a) 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) 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 December 31, 2016 to NIS 16 million.

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

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring[(b)] (contd.)

1. Restructurings carried out

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Unaudited					
		NIS millions			NIS millions	
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**65**	**5**	**5**	68	164	162
Construction & real estate - real estate activities	**5**	**-**	**-**	7	139	138
Financial services	**2**	**-**	**-**	6	410	405
Commercial - other	**207**	**21**	**19**	359	30	29
Total commercial	**279**	**26**	**24**	440	743	734
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**1,690**	**20**	**19**	1,893	23	25
Total public - activity in Israel	**1,969**	**46**	**43**	2,333	766	759
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**1**	**41**	**41**	2	7	6
Commercial - other	**6**	**141**	**141**	4	5	5
Total commercial	**7**	**182**	**182**	6	12	11
Private individuals	**-**	**-**	**-**	1	1	1
Total public - activity abroad	**7**	**182**	**182**	7	13	12
Total public	**1,976**	**228**	**225**	2,340	779	771

(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) 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 (contd.)

B. Debts[(a)] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring[(b)] (contd.)

1. Restructurings carried out (contd.)

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	Unaudited					
		NIS millions			NIS millions	
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**193**	**14**	**13**	163	181	178
Construction & real estate - real estate activities	**25**	**6**	**6**	26	144	142
Financial services	**10**	**-**	**-**	10	410	405
Commercial - other	**680**	**145**	**141**	725	73	63
Total commercial	**908**	**165**	**160**	924	808	788
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**5,135**	**51**	**49**	4,664	62	47
Total public - activity in Israel	**6,043**	**216**	**209**	5,588	870	835
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**2**	**50**	**50**	5	28	27
Commercial - other	**17**	**164**	**164**	12	34	34
Total commercial	**19**	**214**	**214**	17	62	61
Private individuals	**1**	**-**	**-**	4	1	1
Total public - activity abroad	**20**	**214**	**214**	21	63	62
Total public	**6,063**	**430**	**423**	5,609	933	897

(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) 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 (contd.)

B. Debts[a] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring[b] (contd.)

2. Failed restructurings carried out[c]

	Three months ended September 30, 2017		Three months ended September 30, 2016	
	Number of contracts	Recorded debt balance[d]	Number of contracts	Recorded debt balance[d]
	Unaudited			
		NIS millions		NIS millions
Activity of borrowers in Israel Public - commercial				
Construction & real estate - construction	**34**	**2**	25	-
Construction & real estate - real estate activities	**1**	**-**	4	6
Financial services	**-**	**-**	-	-
Commercial - other	**134**	**8**	107	3
Total commercial	**169**	**10**	136	9
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**753**	**2**	784	4
Total public - activity in Israel	**922**	**12**	920	13
Activity of borrowers abroad Public - commercial				
Construction & real estate	**-**	**-**	-	-
Commercial - other	**5**	**6**	1	10
Total commercial	**5**	**6**	1	10
Private individuals	**-**	**-**	-	-
Total public - activity abroad	**5**	**6**	1	10
Total public	**927**	**18**	921	23

(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) 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 (contd.)

B. Debts[a] (contd.)

2. Additional information on impaired debts (contd.)

c. Problem debts under restructuring (contd.)[b]

2. Failed restructurings carried out[c] (contd.)

	Nine months ended September 30, 2017		Nine months ended September 30, 2016	
	Number of contracts	Recorded debt balance[d]	Number of contracts	Recorded debt balance[d]
	Unaudited			
		NIS millions		NIS millions
Activity of borrowers in Israel				
Public - commercial				
Construction & real estate - construction	**129**	**4**	53	4
Construction & real estate - real estate activities	**11**	**2**	6	6
Financial services	**7**	**-**	6	-
Commercial - other	**466**	**18**	194	16
Total commercial	**613**	**24**	259	26
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**3,054**	**12**	1,395	9
Total public - activity in Israel	**3,667**	**36**	1,654	35
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**1**	**2**	4	10
Commercial - other	**8**	**10**	9	30
Total commercial	**9**	**12**	13	40
Total public - activity abroad	**9**	**12**	13	40
Total public	**3,676**	**48**	1,667	75

(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) 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 (contd.)

B. Debts[(a)] (contd.)

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

		September 30, 2017 (Unaudited)			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		NIS millions			
First charge: financing rate	Up to 60%	**50,019**	**2,434**	**33,019**	**1,367**
	More than 60%	**28,079**	**862**	**19,710**	**167**
Second charge or no charge		**38**	**2**	**33**	**-**
Total		**78,136**	**3,298**	**52,762**	**1,534**

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

		December 31, 2016 (Audited)			
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		NIS millions			
First charge: financing rate	Up to 60%	50,331	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) 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) 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 (contd.)

C. Off-balance sheet financial instruments

	September 30, 2017		September 30, 2016		December 31, 2016	
	Contract balances[(a)]	Balance of allowance for credit losses	Contract balances[(a)]	Balance of allowance for credit losses	Contract balances[(a)]	Balance of allowance for credit losses
	Unaudited				Audited	
	NIS millions					
Balances of contracts or their stated amounts at the end of the period						
Transactions in which the balance reflects a credit risk:						
Documentary credits	**1,208**	**4**	1,568	3	1,419	1
Credit guarantees	**5,284**	**82**	5,867	106	5,843	113
Guarantees to apartment purchasers	**19,121**	**18**	19,360	17	19,555	17
Other guarantees and liabilities[(b)]	**15,564**	**253**	15,870	243	15,859	236
Unutilized credit card facilities	**26,569**	**27**	25,044	24	25,522	26
Other unutilized revolving credit facilities and credit facilities in accounts on demand	**12,326**	**28**	12,870	24	12,492	24
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	**23,858**	**59**	24,176	56	23,209	51
Commitments to issue guarantees	**16,262**	**21**	14,416	14	13,833	20
Unutilized facilities for activity in derivative instruments	**2,020**	**-**	3,377	-	2,912	-
Approval in principle for a guaranteed rate of interest	**2,542**	**-**	3,464	-	2,725	-

[1]Of which: credit exposures in respect of the obligation to provide liquidity to securitization structures under the auspices of others not utilized in the amount of NIS 212 million (September 30, 2016 – NIS 225 million, December 31, 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 Ma'of Clearing House in the amount of NIS 111 million (at September 30, 2016 and December 31, 2016, NIS 132 million and NIS 100 million, respectively).

D. Information on loans sold

In the first nine months of 2017, proceeds of NIS 65 million were received for the sale of a commercial loan. In the first nine months of 2016, proceeds of NIS 963 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

	September 30, 2017 (Unaudited)						
	Israeli currency		Foreign currency[a]				
	Unlinked	Linked to the CPI	In US $	In €	In other currencies	Non-monetary items[b]	Total
	NIS millions						
Assets							
Cash and deposits with banks	**56,432**	**-**	**4,817**	**2,558**	**2,191**	**136**	**66,134**
Securities	**38,756**	**3,229**	**25,697**	**9,082**	**2,535**	**2,799**	**82,098**
Securities borrowed or purchased under agreements to resell	**836**	**-**	**6**	**30**	**-**	**-**	**872**
Loans to the public, net[c]	**185,394**	**42,795**	**29,007**	**4,258**	**4,726**	**178**	**266,358**
Loans to governments	**49**	**101**	**503**	**42**	**-**	**-**	**695**
Investments in associate companies	**-**	**-**	**-**	**-**	**-**	**923**	**923**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**2,931**	**2,931**
Derivative assets	**6,712**	**238**	**1,191**	**554**	**281**	**1,978**	**10,954**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Other assets	**6,074**	**4**	**716**	**5**	**30**	**1,422**	**8,251**
Total assets	**294,253**	**46,367**	**61,937**	**16,529**	**9,763**	**10,383**	**439,232**
Liabilities							
Deposits from the public	**224,147**	**18,264**	**89,572**	**11,729**	**6,080**	**409**	**350,201**
Deposits from banks	**1,812**	**10**	**1,804**	**824**	**10**	**-**	**4,460**
Deposits from governments	**65**	**-**	**468**	**6**	**-**	**-**	**539**
Securities lent or sold under agreements to repurchase	**588**	**-**	**-**	**-**	**-**	**49**	**637**
Debentures, bonds and subordinated notes	**4,056**	**12,351**	**-**	**-**	**-**	**-**	**16,407**
Derivative liabilities	**6,973**	**560**	**910**	**492**	**474**	**1,866**	**11,275**
Other liabilities	**8,855**	**11,450**	**675**	**23**	**141**	**1,395**	**22,539**
Total liabilities	**246,496**	**42,635**	**93,429**	**13,074**	**6,705**	**3,719**	**406,058**
Difference[d]	**47,757**	**3,732**	**(31,492)**	**3,455**	**3,058**	**6,664**	**33,174**
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	**(18,234)**	**(4,523)**	**31,220**	**(4,874)**	**(3,740)**	**151**	**-**
Options in the money, net (in terms of underlying asset)	**972**	**-**	**(1,735)**	**440**	**(15)**	**338**	**-**
Options out of the money, net (in terms of underlying asset)	**(742)**	**-**	**233**	**482**	**8**	**19**	**-**
Total	**29,753**	**(791)**	**(1,774)**	**(497)**	**(689)**	**7,172**	**33,174**
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	**592**	**-**	**(1,765)**	**744**	**(19)**	**448**	**-**
Options out of the money, net (discounted par value)	**(101)**	**-**	**(546)**	**438**	**189**	**20**	**-**

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances due to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,272 million.
(d) Shareholders equity including non-controlling interests.

Note 14 –Assets and Liabilities by Linkage Basis (contd.)

	September 30, 2016 (Unaudited)						
	Israeli currency		Foreign currency[a]				
	Unlinked	Linked to the CPI	In US $	In €	In other currencies	Non-monetary items[b]	Total
	NIS millions						
Assets							
Cash and deposits with banks	47,317	245	7,478	837	2,928	262	59,067
Securities	40,223	5,088	30,322	3,649	1,093	2,118	82,493
Securities borrowed or purchased under agreements to resell	896	-	-	-	-	-	896
Loans to the public, net[c]	179,051	45,561	29,354	4,933	5,304	165	264,368
Loans to governments	78	148	341	56	-	-	623
Investments in associate companies	-	-	-	-	-	897	897
Buildings and equipment	-	-	-	-	-	3,044	3,044
Derivative assets	7,198	123	2,448	272	325	1,264	11,630
Intangible assets and goodwill	-	-	-	-	-	17	17
Other assets	6,406	4	1,214 [e]	12	32	1,055 [e]	8,723
Total assets	281,169	51,169	71,157	9,759	9,682	8,822	431,758
Liabilities							
Deposits from the public	206,373	22,284	86,752	13,432	7,556	454	336,851
Deposits from banks	1,515	18	1,709	301	46	-	3,589
Deposits from governments	41	-	614	6	-	-	661
Securities lent or sold under agreements to repurchase	531	-	22	-	-	-	553
Debentures, bonds and subordinated notes	6,539	17,176	-	-	-	50	23,765
Derivative liabilities	7,775	173	2,560	382	516	1,228	12,634
Other liabilities	9,254	10,682	889 [e]	30	173	1,089 [e]	22,117
Total liabilities	232,028	50,333	92,546	14,151	8,291	2,821	400,170
Surplus assets (liabilities)[d]	49,141	836	(21,389)	(4,392)	1,391	6,001	31,588
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(23,560)	(1,480)	21,923	4,922	(1,972)	167	-
Options in the money, net (in terms of underlying asset)	1,296	-	(970)	(311)	(15)	-	-
Options out of the money, net (in terms of underlying asset)	911	-	(298)	(593)	6	(26)	-
Total	27,788	(644)	(734)	(374)	(590)	6,142	31,588
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,938	-	(1,428)	(484)	(26)	-	-
Options out of the money, net (discounted par value)	3,021	-	(1,169)	(1,728)	(42)	(82)	-

(a) Including linked to foreign currency.
(b) Including derivative instruments whose basis refers to a non-monetary item.
(c) After deducting credit loss allowances due to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,527 million.
(d) Shareholders' equity including non-controlling interests.
(e) Reclassified.

Note 14 –Assets and Liabilities by Linkage Basis (contd.)

	December 31, 2016 (Audited)						
	Israeli currency		Foreign currency[a]				
	Unlinked	Linked to the CPI	In US $	In €	In other currencies	Non-monetary items[b]	Total
	NIS millions						
Assets							
Cash and deposits with banks	63,306	247	7,059	1,245	2,615	285	74,757
Securities	35,314	3,701	31,710	2,934	1,599	1,943	77,201
Securities borrowed or purchased under agreements to resell	1,284	-	-	-	-	-	1,284
Loans to the public, net[c]	179,597 (e)	44,374	29,299	3,931	4,576	180	261,957
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	5,991 (e)	4	914	4	27	1,103	8,043
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 due to the linkage basis according to the linkage of the credit for which it was created in the amount of NIS 3,493 million.
(d) Shareholders' equity including non-controlling interests.
(e) Reclassified.

Note 15A – Balances and Fair Value Assessments of Financial Instruments

	September 30, 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	**66,134**	**57,939**	**6,618**	**2,070**	**66,627**
Securities[(b)]	**82,098**	**48,049**	**31,782**	**2,262**	**82,093**
Securities borrowed or purchased under agreements to resell	**872**	**872**	**-**	**-**	**872**
Loans to the public, net	**266,358**	**2,609**	**76,008**	**184,801**	**263,418**
Loans to governments	**695**	**-**	**28**	**694**	**722**
Derivative assets	**10,954**	**1,406**	**8,288**	**1,260**	**10,954**
Other financial assets	**1,792**	**1,081**	**-**	**712**	**1,793**
Total financial assets	**428,903[(c)]**	**111,956**	**122,724**	**191,799**	**426,479**
Financial liabilities					
Deposits from the public	**350,201**	**2,302**	**242,635**	**106,404**	**351,341**
Deposits from banks	**4,460**	**-**	**4,042**	**466**	**4,508**
Deposits from governments	**539**	**-**	**475**	**81**	**556**
Securities lent or sold under agreements to repurchase	**637**	**637**	**-**	**-**	**637**
Debentures, notes and subordinated notes	**16,407**	**12,634**	**-**	**5,051**	**17,685**
Derivative liabilities	**11,275**	**1,381**	**9,407**	**487**	**11,275**
Other financial liabilities	**8,497**	**1,313**	**5,514**	**1,670**	**8,497**
Total financial liabilitiies	**392,016[(c)]**	**18,267**	**262,073**	**114,159**	**394,499**
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	**354**	**-**	**-**	**354**	**354**
In addition, liabilities in respect of employee benefits, gross - pension and severance pay[(d)]	**17,560**	**-**	**183**	**17,377**	**17,560**

(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 130,251 million and NIS 167,916 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 (contd.)

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

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

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

(c) Of which: assets and liabilities in the amounts of NIS 131,468 million and NIS 136,291 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 15B – 15D.

(d) The liability is shown in gross figures, and does not take the plan assets managed in its respect into account.

Note 15A – Balances and fair value assessments of financial instruments (contd.)

	December 31, 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	261,957[e]	2,566 [e]	73,382	184,726	260,674
Loans to governments	642	-	27	642	669
Derivative assets	10,654	727	8,960	967	10,654
Other financial assets	1,711 [e]	936 [e]	-	776	1,712
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 liabilitiies	393,450 [c]	23,187	251,127	121,491	395,805
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	353	-	-	353	353
In addition, liabilities in respect of employee 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.

(e) Reclassified.

Note 15B – Items measured at fair value

A. Items measured for fair value on a recurring basis

	September 30, 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	**37,013**	**1,991**	**-**	**39,004**
Foreign government bonds	**3,841**	**9,537**	**-**	**13,378**
Bonds of Israeli financial institutions	**-**	**23**	**-**	**23**
Bonds of overseas financial institutions	**45**	**8,509**	**-**	**8,554**
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**-**	**7,302**	**1,311**	**8,613**
Other bonds in Israel	**4**	**78**	**-**	**82**
Other bonds abroad	**-**	**2,567**	**-**	**2,567**
Shares and mutual funds available for sale	**1,844**	**-**	**-**	**1,844**
Total securities available for sale	**42,747**	**30,007**	**1,311**	**74,065**
Securities held for trading:				
State of Israel bonds	**4,734**	**26**	**-**	**4,760**
Foreign government bonds	**352**	**121**	**-**	**473**
Bonds of financial institutions in Israel	**55**	**-**	**-**	**55**
Bonds of foreign financial institutions	**-**	**197**	**-**	**197**
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**-**	**288**	**-**	**288**
Other bonds in Israel	**157**	**-**	**-**	**157**
Other bonds abroad	**-**	**334**	**-**	**334**
Shares and mutual funds held for trading	**4**	**-**	**-**	**4**
Total securities held for trading	**5,302**	**966**	**-**	**6,268**
Derivative assets:				
NIS - Inflation linked contracts	**-**	**173**	**228**	**401**
Interest contracts	**20**	**5,066**	**267**	**5,353**
Foreign currency contracts	**1**	**2,438**	**609**	**3,048**
Share contracts	**1,127**	**596**	**153**	**1,876**
Commodities and other contracts	**7**	**15**	**3**	**25**
Activity in Ma'of market	**251**	**-**	**-**	**251**
Total derivative assets:	**1,406**	**8,288**	**1,260**	**10,954**
Others:				
Credit and deposits in respect of lending of securites	**2,609**	**6**	**-**	**2,615**
Securities borrowed or purchased under agreements to resell	**872**	**-**	**-**	**872**
Other	**1,080**	**-**	**-**	**1,080**
Total others	**4,561**	**6**	**-**	**4,567**
Total assets	**54,016**	**39,267**	**2,571**	**95,854**

Note 15B – Items measured at fair value (contd.)

A. Items measured for fair value on a recurring basis (contd.)

	September 30, 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:				
NIS - Inflation linked contracts	**-**	**240**	**216**	**456**
Interest contracts	**19**	**5,009**	**-**	**5,028**
Foreign currency contracts	**1**	**3,481**	**202**	**3,684**
Share contracts	**1,127**	**660**	**69**	**1,856**
Commodities and other contracts	**7**	**17**	**-**	**24**
Activity in Ma'of market	**227**	**-**	**-**	**227**
Total derivative liabilities	**1,381**	**9,407**	**487**	**11,275**
Others:				
Deposits in respect of lending of securites	**2,323**	**8**	**47**	**2,378**
Securities lent or sold under agreements to repurchase	**637**	**-**	**-**	**637**
Others	**1,313**	**-**	**-**	**1,313**
Total others	**4,273**	**8**	**47**	**4,328**
Total liabilities	**5,654**	**9,415**	**534**	**15,603**

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

	September 30, 2016 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	NIS millions			
Assets				
Securities available for sale:				
Israeli government bonds	37,228	2,121	-	39,349
Foreign government bonds	7,141	900 (a)	-	8,041
Bonds of Israeli financial institutions	-	36	-	36
Bonds of overseas financial institutions	46	6,996	-	7,042
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	8,396	1,611	10,007
Other bonds in Israel	78	318	-	396
Other bonds abroad	-	2,424(a)	-	2,424
Shares and mutual funds available for sale	1,137	-	-	1,137
Total securities available for sale	45,630	21,191	1,611	68,432
Securities held for trading:				
State of Israel bonds	7,474	54	-	7,528
Foreign government bonds	1,665	2,571	-	4,236
Bonds of financial institutions in Israel	157	-	-	157
Bonds of foreign financial institutions	-	101	-	101
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	269	-	269
Other bonds in Israel	180	-	-	180
Other bonds abroad	-	609	-	609
Shares and mutual funds held for trading	17	-	-	17
Total securities held for trading	9,493	3,604	-	13,097
Derivative assets:				
NIS - Inflation linked contracts	-	193	172	365
Interest contracts	67	6,463	376	6,906
Foreign currency contracts	-	1,806	1,009	2,815
Share contracts	739	444	104	1,287
Commodities and other contracts	7	8	11	26
Activity in Ma'of market	231	-	-	231
Total derivative assets	1,044	8,914	1,672	11,630
Others:				
Credit and deposits in respect of lending of securites	2,220	2	-	2,222
Securities borrowed or purchased under agreements to resell	896	-	-	896
Other	915	-	-	915
Total others	4,031	2	-	4,033
Total assets	60,198	33,711	3,283	97,192

(a) Reclassified.

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

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

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

	December 31, 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
	NIS millions			
Assets				
Securities available for sale:				
Israeli government bonds	33,382	2,027	-	35,409
Foreign government bonds	9,994	1,455 (a)	-	11,449
Bonds of Israeli financial institutions	-	23	-	23
Bonds of foreign 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	-	2,362 (a)	-	2,362
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 foreign financial institutions	-	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:				
NIS - Inflation linked 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 Ma'of market	255	-	-	255
Total derivative assets	727	8,960	967	10,654
Others:				
Credit and deposits in respect of lending of securites	2,522	5	-	2,527
Securities borrowed or purchased under agreements to resell	1,284	-	-	1,284
Other	980	-	-	980
Total others	4,786	5	-	4,791
Total assets	55,850	33,422	2,393	91,665

(a) Reclassified.

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

	December 31, 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
	NIS millions			
Liabilities				
Derivative liabilities:				
NIS - Inflation linked 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 Ma'of 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 (contd.)
B. Items measured for fair value on a non-recurring basis

	September 30, 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 gain (loss) from changes in value for period
	NIS millions				
Collateral-dependent impaired credit	**-**	**-**	**809**	**809**	**205**
Bonds held to maturity	**-**	**809**	**-**	**809**	**(5)**
Total	**-**	**809**	**809**	**1,618**	**200**

	September 30, 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 gain (loss) from changes in value for period
	NIS millions				
Collateral-dependent impaired credit	-	-	1,192	1,192	271
Total	-	-	1,192	1,192	271

	December 31, 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 gain (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

	Three months ended September 30, 2017 (Unaudited)										
		Realized and unrealized gains (losses), net, included									
	Fair value at beginning of the period	In profit and loss statement[a]	In other comprehensive income[b]	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3[c]	Transfers from Level 3[c]	Fair value at September 30, 2016	Unrealized gains (losses) for instruments held at September 30, 2017
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**1,454**	**(3)**	**(2)**	**198**	**(12)**	**(324)**	**-**	**-**	**-**	**1,311**	**(1)**
Total bonds available for sale	**1,454**	**(3)**	**(2)**	**198**	**(12)**	**(324)**	**-**	**-**	**-**	**1,311**	**(1)**
Derivative assets:											
NIS - Inflation linked contracts	**205**	**35**	**-**	**-**	**-**	**-**	**-**	**22**	**(34)**	**228**	**(1)**
Interest contracts	**205**	**148**	**-**	**-**	**-**	**(86)**	**-**	**-**	**-**	**267**	**75**
Foreign currency contracts	**975**	**(516)**	**-**	**150**	**-**	**-**	**-**	**-**	**-**	**609**	**37**
Share contracts	**103**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**153**	**(4)**
Commodities and other contracts	**8**	**(5)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**(3)**
Total derivative assets	**1,496**	**(288)**	**-**	**150**	**-**	**(86)**	**-**	**22**	**(34)**	**1,260**	**104**
Total assets	**2,950**	**(291)**	**(2)**	**348**	**(12)**	**(410)**	**-**	**22**	**(34)**	**2,571**	**103**
Liabilities:											
Derivative liabilities:											
Shekel-index contracts	**218**	**(8)**	**-**	**-**	**-**	**-**	**-**	**11**	**(5)**	**216**	**17**
Foreign currency contracts	**254**	**(52)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202**	**(61)**
Share contracts	**-**	**69**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**69**	**-**
Total derivative liabilities	**472**	**9**	**-**	**-**	**-**	**-**	**-**	**11**	**(5)**	**487**	**(44)**
Total others	**50**	**(3)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**12**
Total liabilities	**522**	**6**	**-**	**-**	**-**	**-**	**-**	**11**	**(5)**	**534**	**(32)**

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

(b) Unrealized 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 (contd.)

	Three months ended September 30, 2016 (Unaudited)										
		Realized and unrealized gains (losses), net, included									
	Fair value at beginning of the period	In profit and loss statement[(a)]	In other comprehensive income[(b)]	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	Fair value at September 30, 2016	Unrealized gains (losses) for instruments held at September 30, 2017
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,776[(d)]	(44)[(d)]	14	58[(d)]	(147)[(d)]	(46)[(d)]	-	-	-	1,611[(d)]	(160)
Total bonds available for sale	1,776	(44)	14	58	(147)	(46)	-	-	-	1,611	(160)
Shares available for sale	-	-	-	-	-	-	-	-	-	-	13
Derivative assets:											
NIS - Inflation linked contracts	178	(12)	-	-	-	-	-	6	-	172	(68)
Interest contracts	403	7	-	-	-	(34)	-	-	-	376	(17)
Foreign currency contracts	900	28	-	81	-	-	-	-	-	1,009	358
Share contracts	192	(88)	-	-	-	-	-	-	-	104	(3)
Commodities and other contracts	13	(2)	-	-	-	-	-	-	-	11	6
Total derivative assets:	1,686	(67)	-	81	-	(34)	-	6	-	1,672	276
Total assets	3,462	(111)	14	139	(147)	(80)	-	6	-	3,283	129
Liabilities											
Derivative liabilities:											
NIS - Inflation linked contracts	46	(17)	-	-	-	-	-	19	-	48	33
Foreign currency contracts	136	18	-	-	-	-	-	-	-	154	17
Share contracts	1	(1)	-	-	-	-	-	-	-	-	-
Total derivative liabilities	183	-	-	-	-	-	-	19	-	202	50
Total others	17	5	-	-	-	-	-	-	-	22	1
Total liabilities	200	5	-	-	-	-	-	19	-	224	51

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

(b) Unrealized gains 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 (contd.)

	Nine months ended September 30, 2017 (Unaudited)										
		Realized and unrealized gains (losses), net, included									
	Fair value at beginning of the period	In profit and loss statement(a)	In other comprehensive income(b)	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3[(c)]	Transfers from Level 3[(c)]	Fair value at September 30, 2017	Unrealized gains (losses) for instruments held at September 30, 2017
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**1,426**	**(93)**	**(10)**	**835**	**(23)**	**(824)**	**-**	**-**	**-**	**1,311**	**(1)**
Total bonds available for sale	**1,426**	**(93)**	**(10)**	**835**	**(23)**	**(824)**	**-**	**-**	**-**	**1,311**	**(1)**
Derivative assets:											
NIS - Inflation linked contracts	**202**	**17**	**-**	**-**	**-**	**-**	**-**	**43**	**(34)**	**228**	**47**
Interest contracts	**130**	**283**	**-**	**-**	**-**	**(146)**	**-**	**-**	**-**	**267**	**165**
Foreign currency contracts	**575**	**(468)**	**-**	**502**	**-**	**-**	**-**	**-**	**-**	**609**	**474**
Share contracts	**57**	**96**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**153**	**43**
Commodities and other contracts	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**2**
Total derivative assets	**967**	**(72)**	**-**	**502**	**-**	**(146)**	**-**	**43**	**(34)**	**1,260**	**731**
Total assets	**2,393**	**(165)**	**(10)**	**1,337**	**(23)**	**(970)**	**-**	**43**	**(34)**	**2,571**	**730**
Liabilities:											
Derivative liabilities:											
NIS - Inflation linked contracts	**162**	**26**	**-**	**-**	**-**	**-**	**-**	**63**	**(35)**	**216**	**79**
Foreign currency contracts	**245**	**(43)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202**	**(30)**
Share contracts	**-**	**69**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**69**	**-**
Total derivative liabilities	**407**	**52**	**-**	**-**	**-**	**-**	**-**	**63**	**(35)**	**487**	**49**
Total others	**34**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**27**
Total liabilities	**441**	**65**	**-**	**-**	**-**	**-**	**-**	**63**	**(35)**	**534**	**76**

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

	Nine months ended September 30, 2016 (Unaudited)										
		Realized and unrealized gains (losses), net, included									
	Fair value at beginning of the period	In profit and loss statement(a)	In other comprehensive income(b)	Acqui-sitions and issues	Sales	Extinguish -ments	Adjustments from translation of financial statements	Transfers to Level 3(c)	Transfers from Level 3(c)	Fair value at September 30, 2016	Unrealized gains (losses) for instruments held at September 30, 2016
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(52)	11	135	(378)	(108)	-	-	-	1,611	(156)
Total bonds available for sale	2,003	(52)	11	135	(378)	(108)	-	-	-	1,611	(156)
Shares available for sale	-	-	-	-	-	-	-	-	-	-	13
Derivative assets:											
NIS - Inflation linked contracts	174	(17)	-	-	-	-	-	15	-	172	(12)
Interest contracts	297	174	-	-	-	(95)	-	-	-	376	84
Foreign currency contracts	770	(229)	-	468	-	-	-	-	-	1,009	725
Share contracts	129	(25)	-	-	-	-	-	-	-	104	71
Commodities and other contracts	33	(22)	-	-	-	-	-	-	-	11	3
Total derivative assets:	1,403	(119)	-	468	-	(95)	-	15	-	1,672	871
Total assets	3,406	(171)	11	603	(378)	(203)	-	15	-	3,283	728
Liabilities											
Derivative liabilities:											
NIS - Inflation linked contracts	53	(36)	-	-	-	-	-	31	-	48	32
Foreign currency contracts	199	(45)	-	-	-	-	-	-	-	154	(17)
Share contracts	-	-	-	-	-	-	-	-	-	-	-
Total derivative liabilities	252	(81)	-	-	-	-	-	31	-	202	15
Total others	13	9	-	-	-	-	-	-	-	22	5
Total liabilities	265	(72)	-	-	-	-	-	31	-	224	20

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

(b) Unrealized gains (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 (contd.)

	For the year ended December 31, 2016 (Audited)										
		Realized and unrealized gains (losses), net, included									
	Fair value at beginning of the period	In profit and loss statement(a)	In other comprehensive income(b)	Acqui-sitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3(c)	Transfers from Level 3(c)	Fair value at December 31, 2016	Unrealized gains (losses) for instruments held at December 31, 2016
	NIS millions										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,003	(61)	10	130	(378)	(278)	-	-	-	1,426	14
Total bonds available for sale	2,003	(61)	10	130	(378)	(278)	-	-	-	1,426	14
Derivative assets:											
NIS - Inflation linked 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:											
NIS - Inflation linked 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 gains (losses) were included in the statement of profit and loss under non-interest financing income.
(b) Unrealized gains 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

	September 30, 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)	**1,311**	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)]					
NIS - Inflation linked interest contracts	**166**	Discounting cash flows	Inflationary expectations	**0.28%-(0.29%)**	**(0.01%)**
	62	Discounting cash flows	Transaction counterparty risk	**0.21%-100%** (*)	**1.78%**
Interest contracts	**267**	Discounting cash flows	Transaction counterparty risk	**0.21%-100%** (*)	**1.78%**
Foreign currency contracts	**83**	Discounting cash flows	Inflationary expectations	**0.28%-(0.29%)**	**(0.01%)**
	526	Discounting cash flows	Transaction counterparty risk	**0.21%-100%** (*)	**1.78%**
Share contracts	**153**	Discounting cash flows	Transaction counterparty risk	**0.21%-100%** (*)	**1.78%**
Commodities contracts	**3**	Discounting cash flows	Transaction counterparty risk	**0.21%-100%** (*)	**1.78%**
Liabilities					
Derivative liabilities [(2)]					
NIS - Inflation linked interest contracts	**216**	Discounting cash flows	Inflationary expectations	**0.28%-(0.29%)**	**(0.01%)**
Foreign currency contracts	**202**	Discounting cash flows	Inflationary expectations	**0.28%-(0.29%)**(*)	**(0.01%)**
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	**809**	Fair value of collateral			

* 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 (contd.)

Quantitative information regarding Level 3 fair value measurement (contd.)

	September 30, 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)	1,611 (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)					
NIS - Inflation linked interest contracts	105	Discounting cash flows	Inflationary expectations	0.3%-(0.3%)	-
	67	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Interest contracts	376	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Foreign currency contracts	97	Discounting cash flows	Inflationary expectations	0.3%-(0.3%)	-
	912	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Share contracts	104	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Commodities contracts	11	Discounting cash flows	Transaction counterparty risk	0.05%-100% (*)	2.15%
Liabilities					
Derivative liabilities (2)					
NIS - Inflation linked interest contracts	48	Discounting cash flows	Inflationary expectations	0.3%-(0.3%)	-
Foreign currency contracts	154	Discounting cash flows	Inflationary expectations	0.3%-(0.3%)	-
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,192	Fair value of collateral			

* In respect of a failed counterparty.

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 (contd.)

Quantitative information regarding Level 3 fair value measurement (contd.)

	December 31, 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]					
NIS - Inflation linked 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]					
NIS - Inflation linked 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

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

Note 16 – Miscellaneous Matters

Leumi Partners

On May 7, 2017, the subsidiary company Leumi Partners (hereinafter: "Leumi Partners") entered into an agreement in a non-binding Memorandum of Understanding[1] (hereinafter: "the Memorandum of Understanding") with Direct Insurance - Financial Investments Ltd. (hereinafter: "Financial Investments"), pursuant to which, subject to the completion of Financial Investments' conversion to a private company, Leumi Partners and other investors will purchase ordinary shares of Financial Investments in an amount of NIS 480 million by way of a private placement, with Leumi Partners' share being up to 10% of the issued and paid-up capital of Financial Investments, for consideration of 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 March 31, 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 June 18, 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, in the fourth quarter of 2017, is NIS 260 million, before tax.

Leumi Card

In 2006, Leumi Card entered into an agreement with Shufersal Ltd. (hereinafter, "Shufersal") to issue credit cards to customers of Shufersal. For the purpose of operating the venture, pursuant to the agreement, "Shufersal Finances Limited Partnership" (hereinafter, "Shufersal Finances") was established, incorporating the activity related to Shufersal credit cards. The agreement detailed, inter alia, the allocation of income between the parties. Leumi Card's share in the partnership – 16%.

Further to a report of Shufersal dated July 12, 2017, in which it notified Paz Oil Company Ltd (hereinafter, "Paz") of the exercise of the call option to purchase the holdings of Paz in Shufersal Finances, and that Leumi Card has the right to notify Shufersal of its wish to participate in the purchase of Paz's holdings, and in the aforementioned case, Shufersal and Leumi Card will purchase the holdings of Paz, pro rata between them according to their share on Shufersal Finances, on July 26, 2017, Leumi Card notified Shufersal that it intends to participate in the purchase of Paz's holdings in Shufersal Finances. On August 29, 2017, Shufersal notified Leumi Card that it does not wish to renew the agreement for the issue of credit cards and, further, Shufersal reported to the Stock Exchange that it had signed a document of principles with another company for the issue and operation of credit cards to the club's customers.

Pursuant to the agreement Shufersal and Leumi Card, the termination date of the agreement is January 18, 2018, with Leumi Card continuing to operate the credit card club until the card's expiry according to the provisions of the agreement. As of September 30, 2017, the number of valid credit cards held by the club's customers was about 516,000.

[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.

In addition, on October 19, 2017, Shufersal announced its intention to take steps to exercise a call option to purchase all of Leumi Card's holdings in Shufersal Finances according to a valuation of Shufersal Finances to be made by an agreed assessor. The difference between the exercise price and the value in the books will be carried to the profit and loss.

Change in the Structure of the Tel Aviv Stock Exchange

On April 6, 2017, Amendment No. 63 to the Securities Law, 5728-1968 was published, concerning a change in the structure of the Tel Aviv Stock Exchange.

Pursuant to the aforementioned amendment, on September 7, 2017, the Tel Aviv District Court approved an arrangement for the restructuring of the Stock Exchange, according to which the Bank was allotted approximately 9.3% of the means of control of the Stock Exchange and of the rights in its issued and paid-up capital.

According to the amendment, within five years from the date of approval of the arrangement or until the date of issuance of the shares of the Stock Exchange to the public and their listing for trading, whichever is earlier, the Bank must sell its holdings in the Stock Exchange, so that it will not hold more than 5% of the means of control therein. Until the date of the sale, the said means of control will not confer any rights on the Bank (other than rights in the capital) beyond the rights granted by a 5% holding of all the means of control in the Stock Exchange.

In addition, pursuant to the amendment to the Law, TASE member firms who sell their holdings will transfer to the Stock Exchange the difference in full between the proceeds of the sale received by them and the value of the holdings sold by them, according to the shareholders' equity of the Stock Exchange according to its financial statements for 2015.

Therefore, and in accordance with the aforementioned amendment to the Law, the consideration that the Bank may receive in respect of the sale of its entire holdings on the Stock Exchange will not exceed NIS 47 million.

The amendment has no effect at this stage on the financial statements of the Bank.

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

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Changes in the Board of Directors

There are currently 12 directors on the Board of Directors.

For further information regarding the changes in the composition of the Board of Directors that have occurred in the first quarter of 2017, see chapter "Changes in the Board of Directors" in the 2016 financial statements.

On March 29, 2017 and August 9, 2017, the Committee for the Appointment of Directors in Banking Corporations, in accordance of Article 36A to the Banking Law (Licensing), 1981, (hereinafter, "the Committee for the Appointment of Directors") 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 March 15, 2017 (Ref. no. 2017-01-024366). This aforementioned list included, *inter alia*, Dr. S. Haj Yehia, (then serving as a director with the status of "other director" – a director who is not an external director as stated in Section 11(a)(2) of the Banking Ordinance, 1941 (hereinafter, "director with the status of other director")), Prof. H. Levy (then serving as external director pursuant to Proper Conduct of Banking Business Regulation No. 301 of the Banking Supervision Department), and Ms. Z. Samet (served then as external director pursuant to the provisions of the Companies Law, 1999 (hereinafter, "E.D.")). Mr. Haj Yehia and Prof. Levy finished their first term of office as directors in the Bank on September 29, 2017 and on October 31, 2017, respectively.[1] Likewise, on August 17, 2017, Ms. Z. Samet (E.D.) and David Avner (director with the status of "other director") finished their second term of office as directors in the Bank.[2]

On October 3, 2017, the Annual General Meeting of the Bank was held, pursuant to which 1) Dr. S. Haj Yehia was elected as a director with the status of "other director" for a second term of office of three years, which commenced on October 30, 2017, following the receipt of notice regarding the absence of any objection from the Governor of the Bank of Israel to the appointment[3]; and 2) Ms. Z. Samet, who, until August 17, 2017, served as E.D. in the Bank, was elected a director with the status of external director pursuant to the Proper Conduct of Banking Business Regulation No. 301, who also meets the E.D. eligibility conditions and an individual arrangement (for details, see section 1.4.2 in the report convening the General Meeting published by the Bank) for term of office of three years, commencing the date of receiving the approval or absence of objection, as noted above.

For further information regarding the General Meeting, see Immediate Report of the Bank dated August 28, 2017, concerning the Convening of an Annual General Meeting (Ref. no. 2017-01-074968), Supplementary Immediate Report dated September 28, 2017 concerning the Convening of an Annual General Meeting (Ref no. 2017-01-086014) and Immediate Report dated October 3, 2017 concerning the Results of the General Meeting (Ref. no. 2017-01-087916).

On July 5, 2017, the Bank of Israel published revisions to Proper Conduct of Banking Business Regulation No. 301 ("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 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 revised Regulation No. 301 include reducing the maximum number of directors to 10, instead of 15 as it is today, by July 1, 2020, with a directive of the Supervisor of Banks 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 directors required to "have banking experience," a requirement to incorporate at least one director who has proven experience in the areas of technology; in addition, revised Regulation No. 301 also incorporated Basel principles for corporate governance, which were published in July 2015.

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1 For further details, see Immediate Report on a senior office-holder who ceased to serve in his position, which was published by the Bank on October 1, 2017 (Ref. no. 2017-01-086281).
For further details, see Immediate Report on a senior office-holder who ceased to serve in his position, which was published by the Bank on November 1, 2017 (Ref. no. 2017-01-095686).

2 For further details, see Immediate Report on a senior office-holder who ceased to serve in his position, which was published by the Bank on August 20 1, 2017 (Ref. no. 2017-01-071932).
For further details, see Immediate Report on a senior office-holder who ceased to serve in his position, which was published by the Bank on August 20, 2017 (Ref. no. 2017-01-071923).

3 For further details, see Immediate Report on the appointment of a director, which was published by the Bank on October 30, 2017 (Ref. no. 2017-01-094777).

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

The Internal Auditor's report for the first half of 2017 was submitted to the Audit Committee on August 21, 2017 and was discussed in the Audit Committee on August 27, 2017 and reported in the Board of Directors on September 26, 2016.

Control of the Bank

According to the law, the Bank is defined as a banking corporation without a controlling core and with no shareholder 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 July 10, 2017 (Ref no. 2017-01-090736). Also see Report of List of Holders of the Material Means of Control as of March 31, 2017, dated April 6, 2017 (Ref. 2017-01-038475) and an Immediate Report on a Person Became a Material Holder of the Means of Control in a Banking Corporation without a Control Core dated October 3, 2017 (Ref. no. 087706).

Annual General Meeting

On October 3, 2017, the Annual General Meeting of the Bank was held, at which it was resolved on the appointment of directors to the Bank's Board of Directors, as set forth in the chapter, Changes in the Board of Directors and on the re-appointment of the Somekh Chaikin (KPMG) and Kost, Forer, Gabbay & Kasierer (EY) as joint auditors of the Bank for period commencing the date of approval of the current Annual General Meeting, until the end of the next Annual General Meeting of the Bank.

For further information regarding the General Meeting, see Immediate Report of the Bank dated August 28, 27 concerning the Convening of the Annual General Meeting (Ref. no. 2017-01-074968), Supplementary Immediate Report dated September 28, 2017 concerning the Convening of an Annual General Meeting (Ref no. 2017-01-086014) and Immediate Report dated October 3, 2017 concerning the Results of the General Meeting (Ref. no. 2017-01-087916).

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, until the end of 2017, the Compliance Department will continue 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, and will then be subject to the Head of the Legal Counsel Division.

CTO, CDO and Infrastructure Department

On September 1, 2017, the CTO, CDO and Infrastructure Department was established subject to the Head of Leumi Technologies Division. Pursuant to the activity in the department, the following areas will operate: CDO (Chief Data Officer), CTO (Chief Technology Officer), responsibility for the development of the systems of the digital bank and responsibility for the core system replacement project.

Appointments and retirements

Appointments:

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

Mr. Ilan Boganim, was appointed Head of CDO, CTO and the Infrastructure Department and member of Bank management, and reports to the Head of Leumi Technologies Division, with effect from September 1, 2017.

Ms. Liat Shub will be appointed Chief Compliance Officer and Head of Compliance and Enforcement in the Bank, with effect from January 1, 2018.

Retirements:

Mr. Zeev Morag, who serves as Chief Compliance Officer and office-holder, will terminate his position at the end of 2017.

Appointments and retirements in subsidiaries:

On September 12, 2017, **Mr. Eli Katzav**, Chief Executive Officer of Bank Leumi UK, announced his intention to leave the Bank. **Mr. Gil Karni**, who currently serves as Chief Executive Officer of Bank Leumi Romania, was appointed to the position in his place. The appointment is subject to regulatory approvals which are required in the UK.

In light of the appointment of Mr. **Gil Karni** to the position of Chief Executive Officer of Bank Leumi UK, **Mr. Manfred Rauchwerger** who, until a year ago, served as Senior Executive Vice-President of Bank Leumi Romania, was appointed Acting Chief Executive Officer of Bank Leumi Romania.

Mr. Meir Pilos has been appointed to Chief Executive Officer of Leumi Capital Market Services, in place of **Mr. Yohi Marmari** who has announced his intention to leave the Bank. **Mr. Pilos** is expected to commence his term of office in the first quarter of 2018.

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 these 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, the effect of which on the Bank is expected to be significant.

Legislation

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

On April 6, 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 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 the full amount of the difference between the sale proceeds they receive and the value of the holdings sold by them to the Stock Exchange, 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 under 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 and external committee (the Committee for Locating Candidates).
- The Minister of Finance will have authority to grant and suspend a Stock Exchange license. It is prohibited to offer trading services in securities through the Securities Trading System, unless it is managed by the Stock Exchange.
- The Stock Exchange will publish the commissions which the Stock Exchange members collect from their customers in a comparable format, and the Stock Exchange members are required to report to it regarding these commissions, as well as any change therein.

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

Non-Bank Loan Arrangement Law (Amendment no. 5), 2017 – Fair Value Law

On August 9, 2017, an amendment to the Non-Bank Loan Arrangement Law was published, comparing the norms applicable to non-institutional lenders and those applicable to institutional lenders (insurers, banks, ancillary corporations, clearers, etc.), *inter alia,* on the following subjects:

- Borrower disclosure obligations
- Limits regarding the maximum cost of credit
- Rules regarding the advancement of the loan repayment date

The law applies to borrowers who are individuals. However, the Justice Minister, with the consent of the Finance Minister, the Governor of the Bank of Israel and with the approval of the Constitution, Law and Justice Committee, will be able to expand the incidence of the law or some of its sections to types of corporations.

The law will come into force on November 9, 2018, and obliges the Bank to make contractual and computer preparations.

Memorandum of Payment Services Law, 2017

The memorandum was published by the Justice Ministry in July 2017 further to the recommendations of the Committee for the Promotion of Advanced Means of Payment in Israel.

The memorandum discusses the significant provisions and consumer protections in the area of payment services and proposes regulating two main contract systems: (1) one, between a payment system provider (an issuer of the means of payment or a manager of a payment account) and the payer; and (2) the other, between a payment service provider (a clearer or payment account manager) and a beneficiary (the recipient of the payment).

The payment services to which the memorandum relates are: payment account management, the issue of the means of payment (an agreed object or process between a payment service provider and the payer, which is intended to execute the payment transaction), clearing of a payment transaction (the deposit of money in a payment account, its withdrawal from a payment account, or its transfer to or from a payment account), and any other service provided by the Justice Minister, with the consent of the Finance Minister and the Governor of the Bank of Israel to the order.

The memorandum proposes replacing the Debit Cards Law, 1986 with a new law reflecting technological developments in the field, and is also based on the European Regulation according to the principles provided in the Payment Service Directive.

The implementation of the law, if accepted, is expected to oblige the Bank to make appropriate preparations.

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 June 13, 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 streamlining personnel expenses, to examine possibilities for reducing costs of real estate and maintaining the head office and management units, including re-examining 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 June 30, 2018. The extension of the effective term of the letter will enable a 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.

Banking Rules (Service to the Customer) (Commissions) (Amendment), 2017

The amendment to the rules was published in *Reshumot* on August 24, 2017.

The main points of the amendment are as follows:

- An obligation to grant a discount in the commission tariff of a service provided via a direct channel, compared to the commission tariff for the same service provided via a teller. A summary of the comparison between the tariffs of the direct channel and the teller's tariffs should be presented.
- The regulation of the matter of commissions on cash withdrawal from automatic devices.
- The rules were amended in a way which facilitates the collection of a higher commission from an occasional customer executing activity by teller.

It is estimated that the amendment is expected to result in a reduction in the amount of commissions collected by the Bank pursuant to these rules.

Draft amendment to Proper Conduct of Banking Business Regulation No. 315 "Additional Provision for Doubtful Debts"

On June 6, 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 of 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, a banking corporation is entitled to set the restriction percentage 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 from the limits specified in the directive has occurred, must notify the Banking Supervision Department without delay, along with a plan to cancel the deviation as soon as possible.

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

On October 31, 2017, the Amendment to the Supervision of Financial Services Regulations (Provident Funds) (Purchase and Sale of Securities) (Amendment), 2009 was published in *Reshumot*. Further to the aforesaid, in the Annual Report regarding, as mentioned above, the restriction, which is included in the draft of the regulations regarding the maximum rate of the purchase or sale commission to be paid to a corporation that contains an agreement to provide management or operating services between it and one of the members of the group of investors, was not included in the wording of the regulation.

Miscellaneous matters

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

Recently, a special emphasis has been placed on legislation which encourages 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 at their disposal, the provision of mitigating regulatory scales, and granting reliefs in connection to payment and clearing systems.

There follows a number of examples of the provisions intended to encourage competition, as mentioned above:

- Supervision of Financial Services (Regulated Financial Services), 2016, which will come into force on June 1, 2017, and provides an overall framework for the regulation of the non-banking and non-institutional credit market in Israel;
- The decision of the Antitrust Authority regarding the forwarding of minutes of an engagement used for executing debit card transactions to all players in the market;
- A draft of the Rules of the Banking Supervision Department to regulate the status and operation of a hosted clearer;
- A proposed regulation to permit crowdfunding loans to corporations in an exemption from a prospectus (Peer to Business – P2B).
- A proposal for updates in the investment rules applicable to institutional entities;
- A call for proposal published by the Finance Ministry to receive information on all matters pertaining to the setting-up of a "regulatory sandbox, " to facilitate a regulatory environment of reliefs, adapted to FinTech companies.

The above changes, alongside the initiatives taken by the Bank of Israel, such as the construction of a credit database, the encouragement to streamline 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 coming years.

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

On July 5, 2017, the Knesset plenum approved the Knesset Committee's proposal to set up 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 entities and regulators regarding the allocation of loans to large business borrowers from 2003 onwards. The Inquiry Committee will submit a report detailing its actions and conclusions to the Knesset, at the end of its deliberations.

ABS – Exemption from Restrictive Arrangement Approval – Decision of the Antitrust Authority of September 24, 2017

On September 24, 2017, the Antitrust Authority granted an exemption under certain conditions from a restrictive arrangement approval between an ABS company and the shareholders of the company, including Bank Leumi. The following matters were provided in the conditions of the exemption:

- At the beginning of 2018 and for no consideration, ABS will transfer all of its rights in the EMV Credit Protocol to an association, to be established by ABS and other users join as members of the association. With effect from the date of transferring the rights in the Protocol, ABS will cease to engage in the activity of the of operating services for a limited amount of time).
- The requirements for joining the ABS systems will be egalitarian. ABS will not refuse to a request from any entity to connect to its systems, if it complies with the joining requirements.
- A restriction on the distribution of dividends to shareholders in ABS is canceled. With effect from the end of 2019 or the date on which ABS ceases to supply any services to the association, whichever is earlier, ABS is entitled to distribute a dividend to its shareholders, if the following conditions are fulfilled: ABS's rights in the Protocol are transferred to the association and no shareholder holds more than 10% of the means of control in ABS. The decision stipulates a special arrangement with regard to the distribution of surpluses accrued in ABS as of the date of reaching the decision, which will be transferred to the existing shareholders.

Credit Rating

The table below shows the credit ratings of Israel and of the Bank on November 10, 2017:

	Rating agency	Long-term	Outlook	Short-term
State of Israel	Moody's	A1	stable	P-1
	S&P	A+	positive	A-1
	Fitch	A+	stable	F1+
Bank Leumi: foreign currency	Moody's	A2	stable	P-1
	S&P	A-	positive	A-2
	Fitch	A	stable	F1
Local rating (in Israel)	S&P Ma'alot	AAA	stable	-
	Midroog	AAA	stable	P-1

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

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

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

On August 6, 2017, S&P Rating Agency raised the State of Israel outlook to positive.

On August 9, 2017, Moody's credit rating agency ratified the Bank's rating and outlook.

On August 14, 2017, Midroog credit rating agency ratified the Bank's rating and outlook.

On October 24, 2017, S&P Rating Agency raised the Bank's outlook to positive.

On October 24, 2017, S&P Maalot |credit rating agency ratified 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

	Three months ended September 30					
	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	**236,851**	**1,842**	**3.15**	240,226	2,154	3.64
Outside Israel	**22,530**	**250**	**4.51**	23,188	229	4.01
Total[(i)]	**259,381**	**2,092**	**3.27**	263,414	2,383	3.67
Credit to the Government						
In Israel	**646**	**6**	**3.77**	543	6	4.49
Outside Israel	**-**	**-**	**-**	22	-	-
Total	**646**	**6**	**3.77**	565	6	4.32
Deposits in banks						
In Israel	**5,907**	**22**	**1.50**	7,387	19	1.03
Outside Israel	**384**	**5**	**5.31**	723	5	2.80
Total	**6,291**	**27**	**1.73**	8,110	24	1.19
Deposits in central banks						
In Israel	**46,081**	**12**	**0.10**	32,991	9	0.11
Outside Israel	**3,347**	**2**	**0.24**	6,083	1	0.07
Total	**49,428**	**14**	**0.11**	39,074	10	0.10
Securities borrowed or purchased under resale agreements						
In Israel	**1,006**	**-**	**-**	1,243	1	0.32
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,006**	**-**	**-**	1,243	1	0.32
Bonds held to maturity and available for sale[(d)]						
In Israel	**65,052**	**112**	**0.69**	65,008	144	0.89
Outside Israel	**4,692**	**29**	**2.50**	5,122	29	2.28
Total	**69,744**	**141**	**0.81**	70,130	173	0.99
Bonds for trading[(d)]						
In Israel	**7,822**	**13**	**0.67**	12,103	9	0.30
Outside Israel	**155**	**1**	**2.61**	86	1	4.73
Total	**7,977**	**14**	**0.70**	12,189	10	0.33
Total interest-bearing assets	**394,473**	**2,294**	**2.35**	394,725	2,607	2.67
Receivables for non-interest-bearing credit cards	**6,987**			6,979		
Other non-interest-bearing assets[(e)]	**38,788**			33,119		
Total assets	**440,248**	**2,294**		434,823	2,607	
Total income-bearing assets attributable to activity outside Israel	**31,108**	**287**	**3.74**	35,224	265	3.04

See notes on page 225.

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

	Three months ended September 30					
	2017			2016		
	Average balance(b)	**Interest expense**	**Rate of income**	Average balance(b)	Interest expense	Rate of income
	NIS millions		%	NIS millions		%
Interest- bearing liabilities						
Deposits from the public						
In Israel	**244,048**	**(235)**	**(0.39)**	238,294	(346)	(0.58)
On demand	**107,165**	**(9)**	**(0.03)**	89,294	(6)	(0.03)
Fixed term	**136,883**	**(226)**	**(0.66)**	149,000	(340)	(0.92)
Outside Israel	**14,993**	**(37)**	**(0.99)**	17,920	(34)	(0.76)
On demand	**5,210**	**(6)**	**(0.46)**	4,360	(2)	(0.18)
Fixed term	**9,783**	**(31)**	**(1.27)**	13,560	(32)	(0.95)
Total	**259,041**	**(272)**	**(0.42)**	256,214	(380)	(0.59)
Deposits of the Government						
In Israel	**141**	**(1)**	**(2.87)**	147	(1)	(2.75)
Outside Israel	**500**	**-**	**-**	551	-	-
Total	**641**	**(1)**	**(0.63)**	698	(1)	(0.57)
Deposits from central banks						
In Israel	**42**	**-**	**-**	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**42**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**3,557**	**(3)**	**(0.34)**	4,696	(3)	(0.26)
Outside Israel	**28**	**-**	**-**	21	-	-
Total	**3,585**	**(3)**	**(0.34)**	4,717	(3)	(0.25)
Securities lent or sold under resale agreements						
In Israel	**425**	**-**	**-**	672	(1)	(0.59)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**425**	**-**	**-**	672	(1)	(0.59)
Bonds						
In Israel	**21,751**	**(100)**	**(1.85)**	23,981	(252)	(4.27)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**21,751**	**(100)**	**(1.85)**	23,981	(252)	(4.27)
Total interest-bearing liabilities	**285,485**	**(376)**	**(0.53)**	286,282	(637)	(0.89)
Non-interest-bearing deposits of the public	**87,006**			80,462		
Payables for non-interest-bearing credit cards	**6,624**			6,496		
Other non-interest-bearing liabilities (f)	**28,216**			31,229		
Total liabilities	**407,331**	**(376)**		404,469	(637)	
Total capital means	**32,917**			30,354		
Total liabilities and capital means	**440,248**	**(376)**		434,823	(637)	
Interest margin		**1,918**	**1.82**		1,970	1.78
Net yield(g) on income-bearing assets						
In Israel	**363,365**	**1,668**	**1.85**	359,501	1,739	1.95
Outside Israel	**31,108**	**250**	**3.25**	35,224	231	2.65
Total	**394,473**	**1,918**	**1.96**	394,725	1,970	2.01
Total income-bearing liabilities attributable to activity outside Israel	**15,521**	**(37)**	**(0.96)**	18,492	(34)	(0.74)

See notes on page 225.

Part A – Average balances and interest rates – assets

	Nine months ended September 30					
	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						
Loans to the public(c)						
In Israel	**235,863**	**6,123**	**3.48**	239,641	5,885	3.29
Outside Israel	**23,229**	**713**	**4.11**	23,096	693	4.02
Total(i)	**259,092**	**6,836**	**3.53**	262,737	6,578	3.35
Credit to the Government						
In Israel	**629**	**18**	**3.83**	468	13	3.72
Outside Israel	**-**	**-**	**-**	7	-	-
Total	**629**	**18**	**3.83**	475	13	3.67
Deposits in banks						
In Israel	**4,707**	**64**	**1.82**	8,036	50	0.83
Outside Israel	**519**	**17**	**4.39**	696	13	2.50
Total	**5,226**	**81**	**2.07**	8,732	63	0.96
Deposits in central banks						
In Israel	**45,656**	**35**	**0.10**	32,640	26	0.11
Outside Israel	**4,771**	**4**	**0.11**	5,520	3	0.07
Total	**50,427**	**39**	**0.10**	38,160	29	0.10
Securities borrowed or purchased under resale agreements						
In Israel	**1,038**	**1**	**0.13**	1,488	2	0.18
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,038**	**1**	**0.13**	1,488	2	0.18
Bonds available for sale(d)						
In Israel	**62,430**	**382**	**0.82**	60,228	422	0.94
Outside Israel	**5,307**	**97**	**2.44**	4,935	74	2.00
Total	**67,737**	**479**	**0.94**	65,163	496	1.02
Bonds for trading(d)						
In Israel	**8,703**	**44**	**0.67**	10,764	54	0.67
Outside Israel	**160**	**2**	**1.67**	49	1	2.73
Total	**8,863**	**46**	**0.69**	10,813	55	0.68
Total interest-bearing assets	**393,012**	**7,500**	**2.55**	387,568	7,236	2.50
Receivables for non-interest-bearing credit cards	**6,676**			6,114		
Other non-interest-bearing assets(e)	**37,541**			36,926		
Total assets	**437,229**	**7,500**		430,608	7,236	
Total income-bearing assets attributable to activity outside Israel	**33,986**	**833**	**3.28**	34,303	784	3.06

See notes on page 225.

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

	Nine months ended September 30					
	2017			2016		
	Average balance[(b)]	**Interest expense**	**Rate of income**	Average balance[(b)]	Interest expense	Rate of income
	NIS millions		%	NIS millions		%
Interest- bearing liabilities						
Deposits from the public						
In Israel	**240,352**	**(877)**	**(0.49)**	239,952	(848)	(0.47)
On demand	**101,761**	**(24)**	**(0.03)**	89,668	(10)	(0.01)
Fixed term	**138,591**	**(853)**	**(0.82)**	150,284	(838)	(0.74)
Outside Israel	**15,762**	**(102)**	**(0.86)**	16,614	(96)	(0.77)
On demand	**4,779**	**(16)**	**(0.45)**	3,633	(6)	(0.22)
Fixed term	**10,983**	**(86)**	**(1.05)**	12,981	(90)	(0.93)
Total	**256,114**	**(979)**	**(0.51)**	256,566	(944)	(0.49)
Deposits of the Government						
In Israel	**160**	**(3)**	**(2.51)**	153	(3)	(2.62)
Outside Israel	**605**	**-**	**-**	602	-	-
Total	**765**	**(3)**	**(0.52)**	755	(3)	(0.53)
Deposits from central banks						
In Israel	**40**	**-**	**-**	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**40**	**-**	**-**	-	-	-
Deposits from banks						
In Israel	**4,031**	**(12)**	**(0.40)**	4,465	(8)	(0.24)
Outside Israel	**19**	**-**	**-**	17	-	-
Total	**4,050**	**(12)**	**(0.40)**	4,482	(8)	(0.24)
Securities lent or sold under resale agreements						
In Israel	**393**	**(1)**	**(0.34)**	854	(2)	(0.31)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**393**	**(1)**	**(0.34)**	854	(2)	(0.31)
Bonds						
In Israel	**22,369**	**(549)**	**(3.29)**	24,429	(620)	(3.40)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**22,369**	**(549)**	**(3.29)**	24,429	(620)	(3.40)
Total interest-bearing liabilities	**283,731**	**(1,544)**	**(0.73)**	287,086	(1,577)	(0.73)
Non-interest-bearing deposits of the public	**87,182**	**-**	**-**	78,611	-	-
Payables for non-interest-bearing credit cards	**6,329**	**-**	**-**	6,152	-	-
Other non-interest-bearing liabilities[(f)]	**27,635**	**-**	**-**	29,239	-	-
Total liabilities	**404,877**	**(1,544)**	**-**	401,088	(1,577)	-
Total capital means	**32,352**	**-**	**-**	29,520	-	-
Total liabilities and capital means	**437,229**	**(1,544)**	**-**	430,608	(1,577)	-
Interest margin	**-**	**5,956**	**1.83**	-	5,659	1.76
Net yield[(g)] on income-bearing assets						
In Israel	**359,026**	**5,225**	**1.95**	353,265	4,971	1.88
Outside Israel	**33,986**	**731**	**2.88**	34,303	688	2.68
Total	**393,012**	**5,956**	**2.03**	387,568	5,659	1.95
Total income-bearing liabilities attributable to activity outside Israel	**16,386**	**(102)**	**(0.83)**	17,233	(96)	(0.74)

See notes on page 225.

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

	Three months ended September 30					
	2017			2016		
	Average balance(b)	**Interest income**	**Rate of income**	Average balance(b)	Interest income	Rate of income
	NIS millions		%	NIS millions		%
Index-linked Israeli currency						
Total interest-bearing assets	**47,460**	**149**	**1.26**	51,941	600	4.70
Total interest-bearing liabilities	**34,617**	**(90)**	**(1.04)**	40,828	(359)	(3.56)
Interest spread			**0.22**			1.14
Unlinked Israeli currency						
Total interest-bearing assets	**266,736**	**1,612**	**2.44**	254,727	1,503	2.38
Total interest-bearing liabilities	**198,360**	**(139)**	**(0.28)**	184,941	(163)	(0.35)
Interest spread			**2.16**			2.03
Foreign currency						
Total interest-bearing assets	**49,169**	**246**	**2.02**	52,833	239	1.82
Total interest-bearing liabilities	**36,987**	**(110)**	**(1.19)**	42,021	(81)	(0.77)
Interest spread			**0.83**			1.05
Total activity in Israel						
Total interest-bearing assets	**363,365**	**2,007**	**2.23**	359,501	2,342	2.63
Total interest-bearing liabilities	**269,964**	**(339)**	**(0.50)**	267,790	(603)	(0.90)
Interest spread			**1.73**			1.73

	Nine months ended September 30					
	2017			2016		
	Average balance(b)	**income (expense)**	**income (expense)**	**Average balance(b)**	income (expense)	income (expense)
	NIS millions		%	NIS millions		%
Index-linked Israeli currency						
Total interest-bearing assets	**47,836**	**1,233**	**3.45**	51,380	1,227	3.20
Total interest-bearing liabilities	**35,739**	**(725)**	**(2.71)**	42,291	(780)	(2.47)
Interest spread			**0.74**			0.73
Unlinked Israeli currency						
Total interest-bearing assets	**263,341**	**4,724**	**2.40**	250,707	4,504	2.40
Total interest-bearing liabilities	**193,510**	**(438)**	**(0.30)**	185,562	(467)	(0.34)
Interest spread			**2.10**			2.06
Foreign currency						
Total interest-bearing assets	**47,849**	**710**	**1.98**	51,178	721	1.88
Total interest-bearing liabilities	**38,096**	**(279)**	**(0.98)**	42,000	(234)	(0.74)
Interest spread			**1.00**			1.14
Total activity in Israel						
Total interest-bearing assets	**359,026**	**6,667**	**2.48**	353,265	6,452	2.44
Total interest-bearing liabilities	**267,345**	**(1,442)**	**(0.72)**	269,853	(1,481)	(0.73)
Interest spread			**1.76**			1.71

See notes on page 225.

Part D – Analysis of changes in interest income and interest expenses

	2017 compared with 2016			2017 compared with 2016		
	Three months ended September 30			Nine months ended September 30		
	Increase (decrease) due to change(h)		Net change	Increase (decrease) due to change(h)		Net change
	Amount	Price		Amount	Price	
	NIS millions					
Interest-bearing assets						
Credit to the public						
In Israel	(26)	(286)	(312)	(98)	336	238
Outside Israel	(7)	28	21	4	16	20
Total	(33)	(258)	(291)	(94)	352	258
Other interest-bearing assets						
In Israel	9	(32)	(23)	42	(65)	(23)
Outside Israel	(15)	16	1	(5)	34	29
Total	(6)	(16)	(22)	37	(31)	6
Total interest income	(39)	(274)	(313)	(57)	321	264
Interest-bearing liabilities						
Deposits from the public						
In Israel	6	(117)	(111)	1	28	29
Outside Israel	(7)	10	3	(6)	12	6
Total	(1)	(107)	(108)	(5)	40	35
Other interest-bearing liabilities						
In Israel	(14)	(139)	(153)	(61)	(7)	(68)
Outside Israel	-	-	-	-	-	-
Total	(14)	(139)	(153)	(61)	(7)	(68)
Total interest expenses	(15)	(246)	(261)	(66)	33	(33)
Total net	(24)	(28)	(52)	9	288	297

Notes:

(a) The data in these tables are shown after the effect of hedging derivative instruments.

(b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated on daily figures, and before deduction of the average book balance of credit loss allowances. Overseas subsidiaries on the basis of quarterly opening balances.

(c) Before deduction of the average balance of credit loss allowances, including impaired debts not accumulating interest income.

(d) From the average balance of bonds held for trading and bonds available for sale, there has been deducted/added the average balance of unrealized gains/losses from fair value adjustments of bonds for trading, and also gains/losses in respect of bonds available for trading that are included in shareholder's equity in the framework of accumulated other comprehensive income under "Adjustments in respect of presentation of available for sale securities at fair value" in respect of bonds transferred from the available for sale portfolio, in the amount of NIS 97 million (September 30, 2016 – NIS 619 million).

(e) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.

(f) Including book balances of derivative instruments and non-monetary liabilities.

(g) Net yield – net interest income divided by total interest-bearing assets.

(h) The change attributed to the change in amount was calculated by multiplying the new price by the change in amount. The change attributed to the change in price was calculated by multiplying the old amount by the change in price.

(i) Commissions for the three-month and nine-month period in an amount of NIS 214 million and NIS 320 million, respectively, have been included in interest income from credit to the public (September 30, 2016 – NIS 206 million and NIS 345 million, respectively).