

# CONDENSED FINANCIAL STATEMENTS

## 30.6.2016

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## CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

At the meeting of the Board of Directors held on August 15, 2016, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for June 30, 2016 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

The report for the first half of 2016, has been prepared according to the new Public Reporting Directives (for additional details see "Legislation and supervision" in 2015 Annual Report, pp. 491-492).

These reports should be read together with the 2015 annual report.

## CONDENSED FINANCIAL INFORMATION REGARDING FINANCIAL POSITION AND OPERATING RESULTS

### PRINCIPAL DATA

#### Profitability

|  | For the six months ended June 30 |       |             |
|--|----------------------------------|-------|-------------|
|  | 2016                             | 2015  | Change in % |
|  | In NIS millions                  |       |             |
| Interest income, net   | 2,212                            | 2,115 | 4.6         |
| Credit loss expenses   | 104                              | 4     | 2500.0      |
| Income before taxes  | 1,097                            | 895   | 22.6        |
| Provision for taxes on income  | 455                              | 344   | 32.3        |
| Income after taxes   | 642                              | 551   | 16.5        |
| Net income attributed to the Bank's shareholders   | 572                              | 522   | 9.6         |
| <sup>(2)</sup> Net income attributed to the Bank's shareholders disregarding gains on the sale of rights in Visa Europe and a provision in ICC | 420                              | 522   | (19.5)      |
| Comprehensive income, attributed to the Bank's shareholders  | 478                              | 440   |             |
| Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS   | 0.54                             | 0.50  |             |
| The ratio of income before taxes to total equity in % <sup>(1)</sup>   | 16.8                             | 14.2  |             |
| The ratio of income after taxes to total equity in % <sup>(1)</sup>  | 9.7                              | 8.6   |             |
| Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup>  | 8.8                              | 8.3   |             |
| Net return on equity attributed to the Bank's shareholders, in % <sup>(1)(2)</sup>   | 6.4                              | 8.3   |             |

Footnotes:

(1) On an annual basis.

(2) See Note 17 C to the condensed financial statements.

**Balance sheet**

|  | June 30,<br>2016 | June 30,<br>2015 <sup>(1)</sup> | December<br>31, 2015 <sup>(1)</sup> | Change in % compared<br>to |                      |
|--|------------------|---------------------------------|-------------------------------------|----------------------------|----------------------|
|  | In NIS millions  |                                 |                                     | June 30,<br>2015           | December<br>31, 2015 |
| Total assets                                 | 208,882          | 203,662                         | 205,260                             | 2.6                        | 1.8                  |
| Credit to the public, net                    | 133,092          | 120,279                         | 127,216                             | 10.7                       | 4.6                  |
| Securities                                   | 38,053           | 36,590                          | 38,935                              | 4.0                        | (2.3)                |
| Deposits from the public                     | 161,987          | 151,758                         | 157,404                             | 6.7                        | 2.9                  |
| Equity attributed to the Bank's shareholders | 13,769           | 13,039                          | 13,288                              | 5.6                        | 3.6                  |
| Total equity                                 | 14,181           | 13,460                          | 13,634                              | 5.4                        | 4.0                  |

Footnote:

(1) Excluding balances classified as assets and liabilities held for sale - see Note 18 to the condensed financial statements.

**Ratio of capital to risk assets**

| Basel III                                    | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 |
|--|------------------|------------------|----------------------|
|  | in %             |                  |                      |
| Ratio of common equity tier 1 to risk assets | 9.5              | 9.5              | 9.5                  |
| Ratio of total capital to risk assets        | 13.8             | 14.5             | 14.3                 |

**Financial ratios**

|  | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 |
|--|------------------|------------------|----------------------|
|  | in %             |                  |                      |
| Ratio of total equity to total assets  | 6.8              | 6.6              | 6.6                  |
| Ratio of credit loss expenses to the average balance of credit to the public   | 0.16             | 0.01             | 0.15                 |
| Ratio of credit to the public, net to total assets   | 63.7             | 59.1             | 62.0                 |
| Ratio of credit to the public, net to deposits from the public   | 82.2             | 79.3             | 80.8                 |
| Ratio of deposits from the public to total assets  | 77.5             | 74.5             | 76.7                 |
| Ratio of total non-interest income to operating and other expenses   | 64.9             | 57.3             | 53.3                 |
| Ratio of total non-interest income to operating and other expenses - disregarding gains on the sale of rights in Visa Europe and a provision in ICC <sup>(3)</sup> | 53.5             | 57.3             | 53.3                 |
| Ratio of operating expenses to total income  | 70.6             | 76.0             | 78.7                 |
| Ratio of total non-interest income to operating and other expenses - disregarding gains on the sale of rights in Visa Europe and a provision in ICC <sup>(3)</sup> | 75.8             | 76.0             | 78.7                 |
| Risk assets adjusted return <sup>(1)</sup>   | 8.9              | 8.3              | 5.8                  |
| Risk assets adjusted return <sup>(1)</sup> - disregarding gains on the sale of rights in Visa Europe and a provision in ICC <sup>(3)</sup>                         | 6.5              | 8.3              | 5.8                  |
| Leverage ratio <sup>(2)</sup>  | 6.5              | 6.6              | 6.5                  |
| Liquidity coverage ratio <sup>(2)</sup>  | 133.9            | 140.4            | 128.0                |

Footnotes:

(1) Return on capital computed on the average balance of risk assets in accordance to the minimum capital target set by the Bank (June 30, 2016 - 9.10%, December 31, 2015 - 9.06%, June 30, 2015 - 9.02%).

(2) The ratio is computed in respect of the three months ended June 30, 2016.

(3) See Note 17 C to the condensed financial statements.

**Market share**

Based on data relating to the banking industry as of March 31, 2016, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows:

|                           | March 31,<br>2016 | December 31,<br>2015 |
|---------------------------|-------------------|----------------------|
|                           | In %              |                      |
| Total assets              | 14.7              | 14.8                 |
| Credit to the public, net | 14.2              | 14.2                 |
| Deposits from the public  | 14.9              | 14.7                 |
| Interest income, net      | 17.8              | 17.1                 |
| Total non-interest income | 18.1              | 15.9                 |

**Development of the Discount share**

|   | Closing price at end of the trading day |               |                   | Rate of<br>change in<br>the first half<br>of 2016 in % |
|---|---|---------------|-------------------|--|
|   | August 10, 2016                         | June 30, 2016 | December 31, 2015 |  |
| Discount share                          | 682                                     | 663           | 706               | (6.1)  |
| The Banks index                         | 1,366.79                                | 1,313.80      | 1,340.17          | (2.0)  |
| The TA 25 index                         | 1,462.70                                | 1,397.95      | 1,528.74          | (8.6)  |
| Discount market value (in NIS billions) | 7.18                                    | 6.99          | 7.44              | (6.1)  |

**DISCOUNT GROUP SEGMENT OF OPERATIONS – CONDENSED DESCRIPTION**

As from the financial statements as of March 31, 2016, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

The regulatory operating segments have been defined by the Supervisor of Banks, in the amendment to the reporting instructions, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

**"Household segment"** - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

**"Private banking segment"** - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

**"Minute businesses segment"** - businesses, the annual turnover of which is lower than NIS 10 million.

**"Small businesses segment"** - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

**"Medium businesses segment"** - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

**"Large businesses segment"** - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

**"Financial management segment"** - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

**"Other segment"** - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280).

The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital Markets and Investments, Discount Bancorp, Israel Credit Cards Company, other.

For additional details, see Activity of the Group according to regulatory segments of operations – principal quantitative data and main developments" in Chapter B hereunder, and Notes 12 and 13 to the condensed financial statements.

## A SUMMARY DESCRIPTION OF THE PRINCIPAL RISKS

For a summarized description of the principal risks, see the 2015 annual report (p. 16-17).

For details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

## GOALS AND BUSINESS STRATEGY

On August 20, 2014, the Board of Directors approved the Discount Group's strategic plan for the years 2015-2019.

The plan that was drawn up is based on in-depth analysis and detailed planning work carried out at the Bank, with the assistance of an international consultancy firm. The plan encompasses all the Discount Group's spheres of activity, taking a view of the Group's strengths and challenges, as a diverse and stable financial group having core material holdings in Israel and overseas, with a longstanding and loyal customer base, an extensive network of branches, service that is based on personal relationships, and devoted and professional staff.

The plan has been constructed on three central pillars – far-reaching efficiency measures, growing the retail segment and inculcating an organizational culture supporting change.

**The first pillar** focuses on efficiency measures and stringent management of expenses, including:

- Reducing the size of the Discount Group's workforce by more than 1,000 employees, of which some 700 by the end of 2017;
- Adjustments to the organizational structure, with the aim of simplifying various processes and making them more efficient, as well as shortening the customer response time;
- Reducing the Group's real estate areas (in light of, inter alia, the downsizing of the workforce);
- Savings in procurement costs and other expenses.

**The second pillar** in the plan focuses on long-term growth and profitability:

- Growing the retail segment, placing emphasis on private customers and small businesses, at the Bank and at its subsidiaries – Mercantile and ICC. The Bank continues also in 2016 to focus on increasing its activity in the consumer credit field and on further developing the households and small businesses segment. This measure was also supported by improved infrastructure and the development of models that enabled the portfolio to be enlarged and provided better credit accessibility to the public. Thus for example, in the first half of 2016 private credit at the Discount Group and for small and munit businesses, grew by 7.5% compared with the end of 2015;
- Strengthening the connection with the Bank's customers, by means of upgrading appropriate and useful value offers in a variety of distribution channels, and through implementing technological improvements and enhancing the customer experience. New digital services have been launched in this framework, as well as a new internet site and a new app for private customers (see below "the digital department");
- Accelerating the process of transferring operational functions from the branches to the back-office, so as to allow bank tellers to focus on providing personal service to the customers. The transfer of the operating activity from the branches to the new back office – "the banking service center" – established in 2015, continues at a fast rate. In addition, speedier and simpler work processes, based on new technologies, are deployed at the branches, with the aim of streamlining the bankers' work and enabling them to focus on providing personal service to customers.



**The third pillar** which is the integration of a change supporting and customer focused organizational culture, which is based on performance and excellence and on the development and nurturing of the human capital, is the inculcation of an organizational culture.

## POINTS OF EMPHASIS TOWARDS THE CONTINUATION OF THE YEAR 2016

**Integration of the strategic plan.** Integration of the plan includes the launching and execution of some thirty strategic projects. The change administration established in 2014, continues to lead the coordination of the change plans, provide assistance in their execution, monitoring and control of their progress and reporting to the Management and the Board of Director.

During 2016, the Bank will continue the implementation of the strategic plan while modifying it to changes in the business and regulatory environment that have occurred since the introduction of the plan, and to possible changes in the future banking market, with a number of central points of emphasis, as follows:

- Acceleration of the efficiency plan - The Group is at an advanced stage of forming an optimal outline for an accelerated streamlining plan, which would provide an answer also to the letter of the Supervisor of Banks of January 12, 2016, according to which banking corporations are required to outline a multi-annual streamlining plan. The plan which will include many efficiency levers in all Group companies, including accelerated real estate streamlining, including the shutting down of additional branches and an early retirement plan. The Bank estimates that the introduction of the new retirement plan will take place in the coming weeks.
- Continued growth with a focus on Discount Bank customers;
  - The continuing improvement in the value offer to customers, in service and in marketing capabilities, while focusing on multi-channel and multi-focus solutions;
  - Improvement of the digital value offer;
- Preparation for future banking;
- Management has started the process of formation of the next stage of the strategic plan for the coming years, and the formation of an updated and unique value offer to the Bank's customers, that would be based on a simple and convenient integration of superior digital and human channels, in-depth insight of customer needs and new market leading products;
- Exploiting the potential of the subsidiary companies, including acceleration of the existing plans, both as regards efficiency and as regards the leveraging of growth engines;
- Continuing the strengthening of a performance based organizational culture;
- Continuing the construction of infrastructure (human resources, information technology).

**Forward-looking information.** The main points of the strategic plan presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, and so forth. These assessments are based on the latest information and estimates available to the Bank at date of publishing the reports.

The strategic plan is based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plan are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of some of the future processes and their impact on profitability.

## CHAPTER "B" – EXPLICATION AND ANALYSIS OF THE FINANCIAL RESULTS AND BUSINESS POSITION

### MATERIAL TRENDS, OCCURRENCES, DEVELOPMENTS AND CHANGES

#### MANAGEMENT'S HANDLING OF CURRENT MATERIAL ISSUES

The Group's activity during the second quarter of 2016 is characterized by the further implementation of the Group's strategic plan, with this being accompanied by the formulation of the next stage in the Group strategy.

The Group's capital management is strict. The financial base of the Group continues to be stable. The ratio of equity capital to Tier 1 amounts to 9.5% and the liquidity coverage ratio amounts to 133.9%. This is the capital infrastructure that allows the Group to continue growing.

The central challenges and issues in the second quarter were:

#### UNCOMPROMISING CONTINUATION OF THE STRATEGIC PLAN

The strategic teams at the Bank and at the subsidiary companies have acted and continue to act with considerable effort, towards an exact implementation of the many projects stemming from the strategic plan, including the business focus on growth, mainly as regards credit the field, within the targeted populations, as defined in the strategic plan. At the same time, the Bank continued developing the digital operation, in various channels, and in this framework the Bank has recently introduced a new application for use by private customers. This activity was fortified in the past quarter with the establishment of the digital department in the Technologies Division.

Concurrently with establishing the infrastructure defined in the current strategic plan, and in light of the changes that have taken place in the business and regulatory environment, Management has begun the process of formulating the next stage of the strategic plan for the coming years.

Implementation of the streamlining processes also continued and included the implementation of additional "lean" processes, further work in setting up operations of the Banking Service Center, cutting back on the real estate space used by the Bank, including merging branches and continuing to vacate and sell buildings, and other processes leading to a direct saving in the Bank's expenses.

During the quarter, the Bank, together with MDB and ICC won a tender issued by the Rishon LeZion Municipality, and acquired land on which the Discount Campus will be built (see "Fixed assets and installations" below). In the first stage, all the Banks operating units will be brought together at the Campus, where a new central computer installation will also be established.

The Bank's Management, with the involvement of the Senior Forum, is leading the assimilation of an organizational culture supporting change, which constitutes a central pillar in the strategy's implementation.

Overseas, the bank in New York (IDB New York) continues to present a fair profitability.

#### ADDITIONAL ISSUES

- Both the Bank and ICC continued the examination and monitoring of the possible implications of changes in the financial system, following the conclusions and recommendations of the Committee for the Increase in Competition among Banking and Financial Services in Israel ("the Strum Committee");
- The Bank has continued to devote and invest considerable managerial efforts and attention to the preparations and upgrading of the infrastructure required to deal with cyber risks and cross-border risks, all this alongside the continued integration and assimilation of the risk management culture and compliance;

- The Bank's Management has followed closely the developments in the markets and their possible implications, in the wake of the decision of the Referendum in Britain regarding the exit from the European Union (Brexit).
- During the quarter, the Bank transferred its secondary computing site to a modern hosting site that provides a comprehensive solution to various threat attribution scenarios. During the transfer, the risks associated with the relocation process were closely and stringently monitored;
- The Bank's Management is formulating a streamlining plan, in correlation with the Supervisor of Banks' requirements, which speeds up the timing for attaining the goals of the strategic plan with regard to this (see below "Efficiency of the banking industry - the regulatory expectations");
- The implications of the Remuneration Restrictions Act on the Bank's remuneration policy are being examined (see Remuneration policy in a banking corporation" in "Human Capital");
- The labor relations system at the Bank continues to present a material managerial challenge. Negotiations are taking place with the employees representative committee with regard to extending the Labor Charter and its terms and the wage agreement to the coming years (see "Work relations" in "Human Capital").

## PRINCIPAL ECONOMIC DEVELOPMENTS

Presented below are the main economic developments that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in the second quarter of 2016.

**Growth.** The first half of 2016 was characterized by economic and political uncertainty, and by a moderate global growth. In the second quarter of the year, the U.S. economy grew at a rate of just 1.2% (in annual terms). This, in the wake of 0.8% growth in the first quarter. Growth in the Eurozone slowed to an annual rate of 1.2% in the second quarter, following growth of 2% in the first quarter. According to the IMF, the global product is expected to grow by 3.1% in 2016. The Bank estimates that the Israeli economy will grow by 2.4% in 2016.

**Exchange rates.** During the second quarter of 2016, the dollar strengthened against most of the world's currencies, including against the shekel. This follows significant weakening of the dollar during the first quarter of the year. In effective exchange rate terms, the shekel weakened by 1% in the second quarter, after reaching record levels in the previous quarter.

**Inflation.** Israeli inflation in the 12 months ended in June 2016 amounted to a negative rate of 0.8%. For the past 2 years the inflation rate is below the lower limit (1%) of the target inflation range. The negative inflation is the result of zero global inflation, arising from demand surpluses and declining commodity prices, especially the price of oil, a strong shekel and an administrative decrease in prices. Consequently, the low inflationary environment does not indicate a downturn in demand in the economy. The Bank estimates that inflation at a rate of 0.2% is predicted in 2016.

**Monetary policy.** For quite a long period, central banks around the world keep adopting an expansionary monetary policy. The first half of 2016 was also marked by an expansionary monetary policy. Moreover, following the historic rise in the interest rate in the U.S. last December, a significant decrease occurred in the expected outline of rising the interest rate and the interest rate did not rise for a second time. In Israel interest remains at a historic low of 0.1% and, in the Bank's opinion, it is not predicted to change during 2017.

**Financial markets.** Similarly to the first quarter, the global trading in equities in the second quarter was also marked by high volatility. This, on the background of the uncertainty created by the Referendum in Britain at the end of June regarding the exit of Britain from the European Union. The decision of the British people to leave the Union jolted the financial markets, though the markets corrected the prices upwards a few days after the publication of the Referendum results. The high volatility recorded on the equities markets and the uncertainty created by the British Referendum, led to a steep reduction in returns on government bonds. At the end of the second quarter, the returns on U.S. bonds for ten years dropped to a low of 1.44% from a level of 1.77% at the beginning of the quarter. Furthermore, the return graph for German government bonds dropped to a negative area nearly for its full length, so that at the end of the second quarter ten year bonds were traded at a level of -0.13%. A similar trend, though more moderate, was recorded with respect to Israeli government bonds. At the end of the second quarter, returns on shekel government bonds for nine years (series 825) was 1.63%.

**The third quarter of 2016.** The current macro data for July-August show further moderate growth led by private consumption. U.S. data stand out positively when compared with the other developed countries. The central banks in the UK and Australia have reduced their interest and the Japanese government has announced a fiscal incentive plan. Accordingly, pressures are building up on the ECB (the Eurozone central bank) to implement further monetary expansion.

**Forward-looking information.** The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the quarterly report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.

For further details, see "Main developments in Israel and around the world in the first half of 2016" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

## LEADING AND DEVELOPING RISKS

The Bank considers cyber and data protection risks as well as cross-border risks, as the most significant developing leading risks. For additional details see the 2015 Annual Report (p. 22).

## INITIATIVES CONCERNING THE BANKING SECTOR AND ITS OPERATIONS

**The coalition agreement for the establishment of the 34th Government of the State of Israel – possible implications on the banking industry.** A coalition agreement was signed on April 29, 2015, which contains several sections relating to the banking industry and its operation, as detailed below: The Government shall act to increase competition in the financial and banking fields, reduce costs of long-term savings, increase accessibility to credit for consumers and owners of small and medium businesses; the Government shall support the establishment of a supreme council for financial stability or any other supervisory structure; the separation of credit card companies from banks shall be promoted; promote the legislation of a credit data services act and regulation of off-banking loans act; With a view of reducing "black money" the Government shall support the legislation of the following acts: reduction in the use of cash act and an amendment of the Prohibition of Money Laundering Act which would recognize a serious tax evasion as a predicate offence; The Ministry of Finance shall establish a team for the promotion of a bill memorandum increasing competition in the credit market for consumers and owners of small and medium businesses; The Government shall act to establish IT infrastructure required by new banks in order to increase competition; a team will be formed to examine the manner of implementing deposit insurance, its scope and effect; The Government shall support a reform applying to the reduction in long-term savings costs; the parties shall act to form a special committee of the Knesset for the promotion of the subject.

**The Strum Committee.** On June 3, 2015 the Minister of Finance and the Governor of the Bank of Israel appointed a committee to increase competition in banking and financial services ("the Strum Committee") headed by former Antitrust Commissioner, Mr. Dror Strum. The committee was asked, among other things, to recommend ways of introducing new players to compete for the supply of widespread banking services, including by separating ownership of credit card companies from the banks. The final version of the recommendations of the interim report was published on January 10, 2016.

The central recommendations of the committee were published on July 6, 2016. The full and final report of the Committee has not yet been published. The Committee's recommendations that were published, deal, inter alia, with the following matters:

- Divesting control of the credit card companies from the major banks – The full ownership of credit card companies owned by banks, the total balance sheet assets of which (on a consolidated basis) exceeds 20% of the market ("large banks"), will be sold within three years. In the event that the sellers decide to sell the company by way of a public issue of shares, and within three years would issue to the public at least 25% of the shares, and in total would sell at least 60% of the shares held in the credit card company owned by them – they will be granted an additional year to issue to the public the remaining balance of the shares. The banks, whose total balance sheet assets as of the present time (on a consolidated basis) exceeds 20% of the market, are Bank Hapoalim

Ltd. and Bank Leumi Le'Israel Ltd., which hold IsraCard Ltd. and Leumi Card Ltd., respectively ("the separated companies").

- The banks, from which the credit card companies are to be separated, shall not be permitted to engage in operating the issue of debit cards, as well as in the clearing of transactions made by means of debit cards, either directly or indirectly.
- Within four years, an implementation committee that is to be established will examine whether the ownership of ICC needs to be divested of the ownership of the medium-sized banks, namely, Discount Bank and FIBI, taking note of developments in competitiveness in the market.
- The Committee has recommended further actions the aim of which is to increase competition in banking services, including: presentation of transactions made by an off-banking credit card within the framework of presentation of the bank account; authorizing the separated credit card companies to make use of the information at hand, derived from issue operation and clearing made by them, and any contractual or other restriction between the bank and the separated companies will be null and void; the separated companies would be entitled to make competitive offers for the granting of credit to any customer of the bank from which they had been separated; all banks shall offer to customers the full variety of credit cards, presentation being under equal terms and with no discrimination; all banks would be entitled to issue debit cards to their customers; separated credit card companies would be entitled to cooperate with financial bodies, including banks from which a credit card company had not been separated, for the purpose of a joint issue of credit cards, or in granting finance for the issue of an off-banking credit card, this up to a limited rate not exceeding 50% of the total credit facilities issued to a credit card company by one financial body.
- Within one year from the effective date of the Act and up to five years, the large banks shall discontinue the issue of bank credit cards with one company only, and within two years they will not issue in a joint issue with one credit card company more than 40% of new credit cards issued by that bank (if at that time there will be more than three issue operators) and 50% (if at that time there will be three issue operators). The large banks will gradually reduce the credit facilities granted by credit cards to their customers, so that within two years each large bank would grant to its customers credit facilities of a volume that shall not exceed 50% of the credit volume granted by them in the bank credit cards held by them.
- Concurrently, in order to increase competition in the clearing field, the Bank of Israel will determine more lenient terms for the granting of a clearing agent license, and will regularize the status of a "guest clearing agent", namely the holder of a clearing license who is not directly connected to the payment system, and therefore operates through another clearing agent, who is not a "guest clearing agent". Moreover, the Committee recommends to reduce the issuer commission ("cross-commission"), taking into consideration, inter alia, the level of the issuer commission in Europe and the transition to a daily clearing.
- Entry of new banks into the financial system – implementation of a series of regulatory exemptions to allow the entry of new banks, as detailed in the outline laid out by the Banking Supervision Department.
- Retail credit activity of institutional bodies and bodies related thereto – the companies holding the institutional bodies will be able to set up retail finance subsidiaries, whose resources will be the nostro capital of the parent company and funds raised through public bonds issuances, under the supervision of the Capital Market Commissioner. Investment houses, institutional bodies and companies related to institutional bodies will be granted incentives to offer retail credit to the consumer public and tools will be made available to the public for it to receive such credit.
- Bringing off-banking finance companies into the competition and their supervision – within 12 months, the regulations that will apply to off-banking finance companies will be finalized, so that all companies of this type will offer their services to the public under a regulated and competent supervisory umbrella.

Furthermore, additional recommendations have been determined with respect to strengthening competition between the existing banks, to provide forward view and exemptions for new competitors that will enter the banking industry, to increase the ability of small and medium businesses to vary their credit sources, to insure customers' deposits and assets, to enforce terms of access to the controlled payment systems, increasing the pricing ability of financial consumers; providing authority to a supervised body to conduct financial "shopping" on behalf of a customer and so forth.

- The Committee recommended changing the ownership structure of ABS (Automatic Banking Services). These recommendations were not included in the Bill mentioned below.



The Minister of Finance has adopted the recommendations and issued a Bill Memorandum intended for the implementation of part of the recommendations. On July 31, 2016, the Government and the Ministerial Committee on Legislative matters decided to approve in principle the Bill. On August 2, 2016, the Bill to Strengthen Competition and Reduce Concentration in the Israeli Banking Market (Legislative Amendments), 2016 was published in the Official Gazette. On August 4, 2016, the Knesset passed the first reading of the Bill, and passed it to the Knesset Reforms Committee to be prepared for its second and third readings. (For details regarding the Act, and regarding additional legislative measures to implement the Committee's recommendations, see "Legislation and supervision" under "Additional details regarding the business of the Banking Corporation and management thereof").

The aforementioned topics could have a material effect on the banking system, including the Bank itself. Nevertheless, at this preliminary stage, prior to clarifying the nature, character, scope and timing of the measures that will be taken, if at all, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.

The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of June 30, 2016, is estimated at NIS 40 million.

For details regarding legislation initiatives concerning the banking sector, see "Legislation and Supervision" in the Chapter "Corporate governance, audit and additional details regarding the business and manner of management of a banking corporation".

## ISRAEL CREDIT CARDS – MATERIAL DEVELOPMENTS

### NOTICES BY THE STATE ATTORNEY

**Background - events regarding the clearing of international electronic trade transactions and other matters.** In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months. Moreover, within this framework, the Visa Europe organization notified ICC International that it expects a vigorous and stringent action in handling the irregularities and to implement the risk mitigation plan to which it had committed within the allotted time-span and, were this not to be done, consideration might have to be given to suspending its international clearing license and, in the most extreme cases, to even discontinue its membership in the organization. ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management, conducting advanced monitoring processes for the enforcement of the compliance requirements; various organizational changes and so forth. In addition, ICC took steps to comply with the compliance rules of Visa Europe and MasterCard Worldwide, in addition to terminating its engagement with several trading houses, which caused most of the exposure. At a later stage, the international e-commerce activity was also discontinued. (Fuller details regarding this matter were presented by ICC in its annual financial statements for 2009 and 2010).

In view of the steps taken by ICC, it was informed by VISA Europe in a letter of March 15, 2010, that the improvement in adherence to the rules of the Organization had been noted, and that ICC may again enter into agreements with new trading houses. In an additional letter of January 17, 2011, the VISA Europe Organization reiterated its satisfaction from the measures taken by ICC, and informed ICC of the immediate removal of the restrictions imposed on its international trading activity.

In a letter dated July 21, 2010, MasterCard informed ICC that it is aware of the directed and clear efforts that had been made by ICC, and of the measures adopted by ICC in rectifying the deficiencies found in its operations, and appreciates the responsibility accepted by ICC, and among other things, the efforts made by ICC in rectifying deficiencies as regards trading houses. Among other things, MasterCard further informed that, in view of the action taken by ICC, the past activities of ICC during the period of the former Management would not be examined, and the examinations that had been started in this respect would be discontinued.

A number of trading houses and clusterers had raised demands regarding the burden of monetary sanctions applying to them and the reduction in electronic trade clearing operations conducted with them, which as alleged by them, resulted in heavy damage.

**Notices by the State Attorney.** In continuation of the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department of the State Attorney Office, according to which a file with regards to an investigation of suspicions against ICC, had been delivered for perusal of the State Attorney.

On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering.

The Supervisor of Banks informed ICC on April 20, 2015, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC.

The suspicion brief describes two cases in which, according to the Prosecution, ICC was involved together with others.

In the first affair it has been alleged that during 2006 through 2009 (hereinafter: "the relevant period"), ICC, through who has officiated as CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (jointly and severally: "the Officers"), together or with others, acted fraudulently regarding false coding of transactions cleared by ICC, and also acted in contradiction with the Prohibition of Money Laundering Act. In the second affair it has been alleged that ICC, through the Officers and together or with others, has presented false display with regards the splitting of trading houses records who has cleared through ICC, thus receiving funds and producing gains fraudulently, as well as acting in contradiction with the Prohibition of Money Laundering Act. The transactions turnover that as alleged is attributed to ICC in relation with the alleged offences is NIS billions.

As stated, in the announcement of the State Attorney ICC has the right to submit a motion to refrain from filing an indictment, whether in writing or by way of an oral plea.

In May 2015, the representative of ICC received a copy of the core of the investigation material in this case. ICC's proxy has studied the material brought for his consideration and has prepared his comments with regard thereto. In continuation thereof, a hearing was held in October 2015. In the opinion of its legal consultants, ICC has good arguments against being indicted and it raised them in the hearing held.

The decision as to serving an indictment against ICC, if at all, as well as a decision as to which offences and on the basis of what facts an indictment will be filed, shall be made following the formation of the position of the State Attorney with respect to all those involved in the case.

According to the law, the Court is authorized to impose fines on ICC in respect of the alleged offences, as well as instructs the forfeiture of funds, if such funds are proved to be offence monies.

ICC and the Bank, based on the opinion of their legal consultants, are of the opinion that, at this stage, prior to taking the decision whether to indict ICC, difficulty exists to assess whether an indictment will be filed, and if so, than on what charges and against whom it will be filed.

Furthermore, at this early stage, difficulty exists in assessing the results of the measures that would be adopted, if at all, and their implications on ICC.

Nevertheless, as a precaution, based on a preliminary assessment and an examination of the material received by ICC, ICC has recorded in the second quarter of 2016 a provision of NIS 40 million. Nothing in the aforesaid should be deemed as prejudicing ICC's position in any way with regard to the grounds for its defense.

If the claims raised in the suspicions letter were to be accepted, they might expose ICC to various additional risks, some of which are not possible to assess. However, ICC has strong arguments with regard to these. Among the risks are negative ramifications on ICC's relationship with the international organizations, which constitutes a central pillar of ICC's operations. In the opinion of ICC and the Bank, based on the measures taken by ICC over the years, the conduct between ICC and the international organizations and based on other data and facts in ICC's possession, when taken together, the probability that this risk will materialize is low.

## **ACQUISITION OF VISA EUROPE**

On November 2, 2015, VISA Inc. and VISA Europe Ltd. announced entry into an agreement whereby VISA Inc. will acquire VISA Europe. The transaction was subject to obtaining various regulatory approvals. All as detailed in the immediate reports dated November 3, 2015 and December 24, 2015 (Ref. No. 2015-01-147192 and No. 2015-01-187911), the information presented therein is stated here by way of reference.

On April 22, 2016, the Bank was informed that, following comments on the agreement and negotiations between Visa Inc. and Visa Europe, an amendment to the agreement had been formulated whereby the payment of part of the additional future consideration would be brought forward. The amendment to the agreement was subject to various regulatory approvals.

On June 21, 2016, after having obtained the regulatory approvals, the immediate cash consideration in the amount of Euro 71 million, was received.

An additional future cash consideration of Euro 6 million, which is expected to be received.

In addition, ICC received preferred shares convertible into shares of VISA Inc., which are blocked for periods of four to twelve years. Their value at the transaction date is estimated at Euro 26 million ("Naive Value"). It is clarified that the conversion ratio of the preferred shares might under certain conditions, be reduced in the future.

The consideration for the transaction is divisible among the Bank, ICC and FIBI, all having the status of "Principal Member" in VISA Europe. The division will be conducted in the future in accordance with an agreed division mechanism formed by the parties. The division mechanism has been approved by the authorized organs of the parties.

Following the consummation of the transaction a net profit of approx. NIS 178 million was recognized in the financial statements as of June 30, 2016.

On July 5, 2016, VISA Europe informed that following the consummation of the transaction, the rebates program for members of the organization will be terminated as from October 1, 2016. VISA Europe announced on July 22, 2016, an increase in the amounts of clearing fees charged by it, starting on January 1, 2017.

On June 20, 2016, ICC and VISA Europe signed an agreement for the years 2016-2019. This agreement replaces an earlier agreement signed by the parties in April 2013. According to the amendment to the agreement, ICC is expected to receive supporting awards from VISA in the years 2016 to 2019.

At this stage, it is not possible to assess the effect of the termination of rebates plan and increased clearing fees on the one hand, and the support agreement on the other hand, on the results of ICC in the future.

For additional details, see Note 3 and Note 17 C to the condensed financial statements.

## **EFFICIENCY OF THE BANKING INDUSTRY – THE REGULATORY EXPECTATIONS**

**Letter of the Supervisor of Banks in the matter of operating efficiency of the banking industry in Israel.** A letter by the Supervisor of Banks was published on January 12, 2016, according to which, banking corporations are required to outline a multi-annual efficiency plan. It is the Supervisor's intention to define a periodic reporting format to the Supervisor of Banks of the efficiency plan. The Supervisor would grant relief to banking corporations as regards the capital adequacy requirements, in respect of certain costs of the efficiency plan, subject to the conditions stated in the letter. The relief detailed in the letter shall apply to efficiency plans approved until December 31, 2016.

The Bank has studied alternatives for the implementation of that stated in the letter of the Supervisor of Banks, and is in the midst of an advanced stage of formation an optimal outline. The Bank intends to apply to the Supervisor of Banks for an approval of the outline being formed. The Bank estimates that the introduction of the new retirement plan would be made in the coming weeks.

Within the framework of that stated above, the Bank's Management studied also the possible implications of the Remuneration of Officers of Financial Corporations Act, 2016, on efficiency plans in the future.



## REVIEW BY THE INDEPENDENT AUDITORS

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In their review report of the interim consolidated condensed unaudited financial statements for the three and six months periods ended on June 30, 2016, the independent auditors drew attention to Note 10 items 4.6 and 5 regarding requests to approve certain actions and with regard to other claims as a class action suits against the Bank and investee companies and to that stated in Note 17 b (2) with respect to the notice given by the State Attorney Office, according to which the State Attorney is considering the filing of an indictment against ICC. In accordance with that stated in the Note, at this early stage, difficulty exists in assessing the results of the measures that would be adopted, if at all, and their implications on ICC.

## MATERIAL DEVELOPMENTS IN INCOME, EXPENSES AND OTHER COMPREHENSIVE INCOME

### INCOME AND PROFITABILITY

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**Net profit attributed to the Bank's shareholders** for the first half of 2016 totalled NIS 572 million, compared with NIS 522 million in the corresponding period last year, an increase of 9.6%. Eliminating profit from the sale of the rights in Visa Europe and a provision in ICC (see 17 C to the condensed financial statements), the profit for the first half of 2016 would amount to NIS 420 million, a 19.5% decrease.

**Return on equity net attributed to the Bank's shareholders** for the first half of 2016 reached a rate of 8.8%, on an annual basis, compared with a rate of 8.3% for the corresponding period last year, and 5.8% for all of 2015. Eliminating profits from the sale of the rights in Visa Europe and a provision in ICC, the return in the first half of 2016 would have been 6.4% on an annual basis.

**The following are the main factors that had an effect on the business results of the Group** in the first half of 2016, compared with the corresponding period last year:

- a. An increase in interest income, net, in an amount of NIS 97 million (4.6%).
- b. An increase in credit loss expenses, of NIS 100 million.
- c. An increase in the total non-interest income, of NIS 235 million (14.4%), affected by an increase of NIS 237 million in non-interest financing income (82.6%), of which NIS 360 million relates to profit from the sale of the rights in Visa Europe (see Note 3 to the condensed financial statements), a decrease of NIS 55 million in commissions (4.2%) and an increase of NIS 53 million in other income, mostly from the realization of assets (147.2%).
- d. An increase of NIS 30 million in operating and other expenses (1.1%), affected, mainly, by an increase of NIS 17 million in payroll and related expenses (1.0%), a decrease in the amount of NIS 34 million in maintenance and depreciation expenses of buildings and equipment (5.9%) and an increase of NIS 47 million in other expenses (8.2%), mostly NIS 40 million provision in ICC.
- e. Tax provision of NIS 455 million on earnings in the first half of 2016, compared with NIS 344 million in the corresponding period last year. The provision for taxes in the first half of 2016 was impacted by the one-time effect of the reduction in the corporate tax rate, an expense of NIS 50 million (see Note 19 to the condensed financial statements).

## DEVELOPMENTS IN INCOME AND EXPENSES

## Developments in certain income statement items in the first half of 2016, compared with the first half of 2015

|  | For the six months ended June 30, |              |               |
|--|-----------------------------------|--------------|---------------|
|  | 2016                              | 2015         | Change        |
|  | In NIS millions                   |              | in %          |
| Interest income  | 2,720                             | 2,632        | 3.3           |
| Interest expenses  | 508                               | 517          | (1.7)         |
| Interest income, net   | 2,212                             | 2,115        | 4.6           |
| Credit loss expenses   | 104                               | 4            | 2500.0        |
| <b>Net interest income after credit loss expenses</b>  | <b>2,108</b>                      | <b>2,111</b> | <b>(0.1)</b>  |
| <b>Non-interest Income</b>   |                                   |              |               |
| Non-interest financing income  | 524                               | 287          | 82.6          |
| Commissions  | 1,257                             | 1,312        | (4.2)         |
| Other income   | 89                                | 36           | 147.2         |
| <b>Total non-interest income</b>   | <b>1,870</b>                      | <b>1,635</b> | <b>14.4</b>   |
| <b>Operating and other Expenses</b>  |                                   |              |               |
| <b>Salaries and related expenses</b>   | <b>1,720</b>                      | <b>1,703</b> | <b>1.0</b>    |
| Maintenance and depreciation of buildings and equipment  | 541                               | 575          | (5.9)         |
| Other expenses   | 620                               | 573          | 8.2           |
| <b>Total operating and other expenses</b>  | <b>2,881</b>                      | <b>2,851</b> | <b>1.1</b>    |
| Income before taxes  | 1,097                             | 895          | 22.6          |
| Provision for taxes on income  | 455                               | 344          | 32.3          |
| Income after taxes   | 642                               | 551          | 16.5          |
| Bank's share in income (loss) of affiliated companies, net of tax effect   | (3)                               | 2            | -             |
| Net income attributed to the non-controlling rights holders in consolidated companies  | (67)                              | (31)         | 116.1         |
| <b>Net income attributed to Bank's shareholders</b>  | <b>572</b>                        | <b>522</b>   | <b>9.6</b>    |
| Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup>  | 8.8                               | 8.3          |               |
| <b>Net income attributed to Bank's shareholders - disregarding gains on the sale of rights in Visa Europe and a provision in ICC<sup>(2)</sup></b>                           | <b>420</b>                        | <b>522</b>   | <b>(19.5)</b> |
| Net return on equity attributed to the Bank's shareholders, % <sup>(1)</sup> - disregarding gains on the sale of rights in Visa Europe and a provision in ICC <sup>(2)</sup> | 6.4                               | 8.3          |               |

Footnotes:

(1) On an annual basis.

(2) See Note 17 C to the condensed financial statements.

**Developments in certain income statement items in the second quarter of 2016, compared with the first quarter of 2016 and compared with the second quarter of 2015**

|  | 2016            |              | 2015         | Rate of Change Q2 2016 compared to |               |
|--|-----------------|--------------|--------------|------------------------------------|---------------|
|  | Q2              | Q1           | Q2           | Q1 2016                            | Q2 2015       |
|  | In NIS millions |              |              | in %                               |               |
| Interest income  | 1,494           | 1,226        | 1,550        | 21.9                               | (3.6)         |
| Interest expenses  | 339             | 169          | 455          | 100.6                              | (25.5)        |
| Interest income, net   | 1,155           | 1,057        | 1,095        | 9.3                                | 5.5           |
| Credit loss expenses (reversal expenses)   | 58              | 46           | (28)         | 26.1                               | -             |
| <b>Net interest income after credit loss expenses</b>  | <b>1,097</b>    | <b>1,011</b> | <b>1,123</b> | <b>8.5</b>                         | <b>(2.3)</b>  |
| Non-interest Income  |                 |              |              |                                    |               |
| Non-interest financing income  | 428             | 96           | 102          | 345.8                              | 319.6         |
| Commissions  | 633             | 624          | 655          | 1.4                                | (3.4)         |
| Other income   | 27              | 62           | 14           | (56.5)                             | 92.9          |
| <b>Total non-interest income</b>   | <b>1,088</b>    | <b>782</b>   | <b>771</b>   | <b>39.1</b>                        | <b>41.1</b>   |
| <b>Operating and other Expenses</b>  |                 |              |              |                                    |               |
| Salaries and related expenses  | 861             | 859          | 832          | 0.2                                | 3.5           |
| Maintenance and depreciation of buildings and equipment  | 268             | 273          | 291          | (1.8)                              | (7.9)         |
| Other expenses   | 335             | 285          | 295          | 17.5                               | 13.6          |
| <b>Total operating and other expenses</b>  | <b>1,464</b>    | <b>1,417</b> | <b>1,418</b> | <b>3.3</b>                         | <b>3.2</b>    |
| Income before taxes  | 721             | 376          | 476          | 91.8                               | 51.5          |
| Provision for taxes on income  | 272             | 183          | 190          | 48.6                               | 43.2          |
| Income after taxes   | 449             | 193          | 286          | 132.6                              | 57.0          |
| Bank's share in income (loss) of affiliated companies, net of tax effect   | (2)             | (1)          | 2            | 100.0                              | -             |
| Net income attributed to the non-controlling rights holders in consolidated companies  | (54)            | (13)         | (18)         | 315.4                              | 200.0         |
| <b>Net income attributed to Bank's shareholders</b>  | <b>393</b>      | <b>179</b>   | <b>270</b>   | <b>119.6</b>                       | <b>45.6</b>   |
| Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup>  | 12.3            | 5.5          | 8.7          |                                    |               |
| <b>Net income attributed to Bank's shareholders - disregarding gains on the sale of rights in Visa Europe and a provision in ICC<sup>(2)</sup></b>                           | <b>241</b>      | <b>179</b>   | <b>270</b>   | <b>34.6</b>                        | <b>(10.7)</b> |
| Net return on equity attributed to the Bank's shareholders, % <sup>(1)</sup> - disregarding gains on the sale of rights in Visa Europe and a provision in ICC <sup>(2)</sup> | 7.4             | 5.5          | 8.7          |                                    |               |

Footnotes:

(1) On an annual basis.

(2) See Note 17 C to the condensed financial statements.

Following are details regarding material changes in statement of income items:

**Interest income, net.** In the first half of 2016, interest income, net, amounted to NIS 2,212 million compared with NIS 2,115 million in the corresponding period last year, an increase of 4.6%. The rise in the interest income, net, in the amount of NIS 97 million, is explained by a negative price impact of NIS 63 million, and a positive quantitative effect in the amount of NIS 160 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).

The interest spread, excluding derivatives, reached a rate of 2.22% in the first half of 2016, compared with 2.16% in the corresponding period last year.

The average balance of interest bearing assets has increased by a rate of approx. 1.4%, from an amount of NIS 184,272 million to NIS 186,925 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 1.3%, from an amount of NIS 144,424 million to NIS 142,564 million.

**Non-interest financing income.** In the first half of 2016, non-interest financing income amounted to NIS 524 million, compared to NIS 287 million in the corresponding period last year, a decrease of 82.6%.

The rise in non-interest financing income is mainly from an increase in profits, from investment in shares (see Note 3 to the condensed financial statements), primarily as a result of selling the rights in Visa Europe. Non-interest financing income, after eliminating the aforesaid sale, amounted to NIS 164 million, a 42.9% decrease, mainly as a result of a reduction in adjustments to fair value of derivatives and from a reduction in net gains on sale and adjustment to fair value of bonds.

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing income from current activity, the net interest income and the non-interest financing income need to be aggregated.

#### The composition of the net financing income

|                                   | 2016            |              | 2015         |              |              |              |
|-----------------------------------|-----------------|--------------|--------------|--------------|--------------|--------------|
|                                   | Q2              | Q1           | Q4           | Q3           | Q2           | Q1           |
|                                   | in NIS millions |              |              |              |              |              |
| Interest income                   | 1,494           | 1,226        | 1,234        | 1,401        | 1,550        | 1,082        |
| Interest expenses                 | 339             | 169          | 191          | 334          | 455          | 62           |
| Interest income, net              | 1,155           | 1,057        | 1,043        | 1,067        | 1,095        | 1,020        |
| Non-interest financing income     | 428             | 96           | 46           | 30           | 102          | 185          |
| <b>Total net financing income</b> | <b>1,583</b>    | <b>1,153</b> | <b>1,089</b> | <b>1,097</b> | <b>1,197</b> | <b>1,205</b> |

#### An analysis of the total net financing income

|   | 2016            |              | 2015         |              |              |              |
|---|-----------------|--------------|--------------|--------------|--------------|--------------|
|   | Q2              | Q1           | Q4           | Q3           | Q2           | Q1           |
|   | in NIS millions |              |              |              |              |              |
| Profit from current operations                                    | 1,147           | 1,082        | 1,065        | 1,075        | 1,083        | 1,034        |
| Net profit from realization and adjustment to fair value of bonds | 43              | 75           | 47           | 35           | 24           | 142          |
| Profit (loss) from investments in shares                          | 373             | 14           | (62)         | (38)         | 20           | 28           |
| Adjustment to fair value of derivative instruments                | (18)            | (39)         | 1            | (22)         | 54           | (32)         |
| Exchange rate differences, options and other derivatives          | 37              | 21           | 36           | 47           | 5            | 33           |
| Net income on the sale of loans                                   | 1               | -            | 2            | -            | 11           | -            |
| <b>Total net financing income</b>                                 | <b>1,583</b>    | <b>1,153</b> | <b>1,089</b> | <b>1,097</b> | <b>1,197</b> | <b>1,205</b> |

**Financing income, net**, amounted to NIS 2,736 million in the first half of 2016, compared to NIS 2,402 million in the corresponding period last year, a 13.9% increase.

The increase in financing income is due, primarily, to an increase of NIS 339 million in profits from investment in shares (see Note 3 to the condensed financial statements) and a rise of NIS 112 million in the profit from operating activities, which were offset by a decrease of NIS 79 million in fair value adjustments of derivatives and a decrease of NIS 48 million in net profits from the realization of bonds and their adjustment to fair value.

**Rates of income and expenses.** In the appendices to the quarterly report – Appendix 1 are presented interest income, net. In explaining the Bank's interest rate gap from current operations, one should add the effect of operations in ALM derivatives (not including exchange differences and operation in options).

**Interest margin, from current operations, including ALM derivatives** reached a rate of 1.12% in the first half of 2016, compared with 1.08% in the corresponding period last year.

**The net financing income** amounted to NIS 1,583 million in the second quarter of 2016, compared to NIS 1,197 million in the corresponding quarter last year, a 32.2% increase, and compared to NIS 1,153 million in the first quarter of 2016, a 37.3% increase. The financing income after eliminating the aforementioned sale of the rights in Visa Europe amounted to NIS 1,223 million, an increase of 2.2% compared with the corresponding quarter last year and an increase of 6.1% compared with the first quarter of 2016.

**The interest margin on current operations, including ALM derivatives**, reached 1.11% in the second quarter of 2016, compared to 1.06% in the corresponding quarter last year and compared to 1.12% in the first quarter of 2016.

#### Development of the interest income, net by regulatory operating segments

|                                | For the three months ended June 30, |       |             | For the six months ended June 30, |       |             |
|--------------------------------|-------------------------------------|-------|-------------|-----------------------------------|-------|-------------|
|                                | 2016                                | 2015  |             | 2016                              | 2015  |             |
|                                | In NIS millions                     |       | Change in % | In NIS millions                   |       | Change in % |
| Domestic operations:           |                                     |       |             |                                   |       |             |
| Households                     | 334                                 | 269   | 24.2        | 644                               | 580   | 11.0        |
| Private banking                | 12                                  | 9     | 33.3        | 25                                | 16    | 56.3        |
| Small and minute businesses    | 320                                 | 302   | 6.0         | 624                               | 599   | 4.2         |
| Medium businesses              | 73                                  | 70    | 4.3         | 147                               | 141   | 4.3         |
| Large businesses               | 116                                 | 114   | 1.8         | 240                               | 208   | 15.4        |
| Institutional bodies           | 4                                   | 6     | (33.3)      | 10                                | 9     | 11.1        |
| Financial management           | 112                                 | 130   | (13.8)      | 151                               | 155   | (2.6)       |
| Total Domestic operations      | 971                                 | 900   | 7.9         | 1,841                             | 1,708 | 7.8         |
| International operations:      |                                     |       |             |                                   |       |             |
| Private Individuals            | 53                                  | 73    | (27.4)      | 102                               | 141   | (27.7)      |
| Business operations            | 101                                 | 103   | (1.9)       | 206                               | 222   | (7.2)       |
| Other                          | 30                                  | 19    | 57.9        | 63                                | 44    | 43.2        |
| Total International operations | 184                                 | 195   | (5.6)       | 371                               | 407   | (8.8)       |
| Total                          | 1,155                               | 1,095 | 5.5         | 2,212                             | 2,115 | 4.6         |

**Credit loss expenses.** In the first half of 2016 credit loss expenses in the amount of NIS 104 million were recorded, compared with NIS 4 million in the corresponding period last year. The credit loss expenses for the first half of 2016 were affected, mostly, by the following factors:

- Recording of income on a specific basis, impacted mostly by collections;
- Recording of expenses on a group basis, impacted mostly by recording accounting write-offs and from an increase in credit balances.

The low expense amount in the first half of 2015, stemmed from the recording of income on a group basis, which resulted mostly from collections, changes in the composition of credit and changes in the composition of the multi-annual average of the allowance rates. For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 14 to the condensed financial statements.

**Details of the quarterly development in the credit loss expenses**

|   | 2016      |           | 2015      |           |             |           |
|---|-----------|-----------|-----------|-----------|-------------|-----------|
|   | Q2        | Q1        | Q4        | Q3        | Q2          | Q1        |
| In NIS millions   |           |           |           |           |             |           |
| On a specific basis   | (45)      | (31)      | 65        | (14)      | 26          | 81        |
| On a group basis  | 103       | 77        | 33        | 99        | (54)        | (49)      |
| <b>Total</b>  | <b>58</b> | <b>46</b> | <b>98</b> | <b>85</b> | <b>(28)</b> | <b>32</b> |
| <b>Rate of credit loss expenses to the average balance of credit to the public<sup>(1)</sup>:</b> |           |           |           |           |             |           |
| The rate in the quarter   | 0.18%     | 0.14%     | 0.32%     | 0.27%     | (0.09%)     | 0.10%     |
| Cumulative rate since the beginning of the year   | 0.16%     | 0.14%     | 0.15%     | 0.10%     | 0.01%       | 0.10%     |

Footnote:

(1) On an annual basis.

For additional details, see below "Credit to the public" and "Credit risk" in chapter C hereunder.

**Commissions** in the first half of 2016, amounted to NIS 1,257 million, compared to NIS 1,312 million in the corresponding period last year, a decrease of 4.2%.

**Distribution of the commissions**

|   | For the six months ended June 30, |              | Change<br>in % |
|---|-----------------------------------|--------------|----------------|
|   | 2016                              | 2015         |                |
|   | in NIS millions                   |              |                |
| Ledger fees   | 242                               | 265          | (8.7)          |
| Credit cards  | 496                               | 482          | 2.9            |
| Operations in securities and in certain derivative instruments            | 151                               | 175          | (13.7)         |
| Commissions from the distribution of financial products                   | 67                                | 74           | (9.5)          |
| Management, operational and trusteeship services for institutional bodies | -                                 | 7            | (100.0)        |
| Handling credit   | 70                                | 66           | 6.1            |
| Conversion differences  | 67                                | 72           | (6.9)          |
| Foreign trade services  | 24                                | 26           | (7.7)          |
| Net income from credit portfolio services                                 | 6                                 | 7            | (14.3)         |
| Commissions on financing activities                                       | 88                                | 86           | 2.3            |
| Other commissions   | 46                                | 52           | (11.5)         |
| <b>Total commissions</b>  | <b>1,257</b>                      | <b>1,312</b> | <b>(4.2)</b>   |

For details regarding the recommendations of the team examining the increase of competition in the banking industry and the measures that the Banking Supervision Department has taken and is taking regarding this matter, especially in regard to commissions, see the 2015 Annual Report (pp. 488-491).

**Salaries and related expenses** amounted to NIS 1,720 million in the first half of 2016, compared with NIS 1,703 million in the corresponding period last year, an increase of 1.0%.

**Details of the effects of certain components on salaries and related expenses**

|  | 2016            |            | 2015       |            |            |            |
|--|-----------------|------------|------------|------------|------------|------------|
|  | Q2              | Q1         | Q4         | Q3         | Q2         | Q1         |
|  | In NIS millions |            |            |            |            |            |
| Salaries and Related Expenses - as reported                            | 861             | 859        | 873        | 820        | 832        | 871        |
| Awards   | (44)            | (22)       | (30)       | (4)        | (39)       | (40)       |
| Changes in the provision for severance pay                             | -               | -          | (1)(24)    | -          | -          | -          |
| <b>Salaries and Related Expenses - Disregarding certain components</b> | <b>817</b>      | <b>837</b> | <b>819</b> | <b>816</b> | <b>793</b> | <b>831</b> |

Footnotes:

(1) Increased severance pay for employees of foreign investee company.

In addition to the components described above, the change in salaries and related expenses was also affected by the one-time reduction of NIS 30 million that was recorded in this item in the corresponding period last year, as a result of signing a new wage agreement at MDB (see the 2015 Annual Report, p. 409).

Eliminating the effect of change in awards and eliminating the non-recurring reduction, as stated, the salaries and related expenses for the first half of 2016, remained unchanged compared with the corresponding period last year.

**DEVELOPMENTS IN THE COMPREHENSIVE INCOME****Condensed statement of comprehensive income**

|  | For the six months ended<br>June 30 |            | Change in<br>% |
|--|-------------------------------------|------------|----------------|
|  | 2016                                | 2015       |                |
|  | in NIS millions                     |            |                |
| Net income attributed to the Bank's shareholders   | 572                                 | 522        | 9.6            |
| Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders: |                                     |            |                |
| Other comprehensive loss, before taxes <sup>(1)</sup>  | (108)                               | (98)       |                |
| Effect of attributed taxes   | 14                                  | 16         |                |
| Other comprehensive loss, attributed to the Bank's shareholders, after taxes                       | (94)                                | (82)       |                |
| <b>Comprehensive income, attributed to the Bank's shareholders</b>                                 | <b>478</b>                          | <b>440</b> |                |

Footnote:

(1) For details regarding changes in the components of other comprehensive income, see Note 10 the financial statements.

The comprehensive income was mainly impacted by an actuarial loss (see Note 1 D and Note 8 to the condensed financial statements), by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate and from the rise in value of the available-for-sale securities portfolio (see Note 4 to the condensed financial statements).

## STRUCTURE AND DEVELOPMENTS OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

### DEVELOPMENT OF ASSETS AND LIABILITIES

**Total assets** as at June 30, 2016, amounted to NIS 208,882 million, compared with NIS 205,260 million at the end of 2015, an increase of 1.8%.

#### Developments in the principal balance sheet items

|   | June 30, 2016   | December 31, 2015 |                     |
|---|-----------------|-------------------|---------------------|
|   | in NIS millions |                   | Rate of change in % |
| <b>Assets<sup>(1)</sup></b>                             |                 |                   |                     |
| Cash and deposits with banks                            | 26,784          | 28,518            | (6.1)               |
| Securities  | 38,053          | 38,935            | (2.3)               |
| Credit to the public, net                               | 133,092         | 127,216           | 4.6                 |
| <b>Liabilities<sup>(1)</sup></b>                        |                 |                   |                     |
| Deposits from the public                                | 161,987         | 157,404           | 2.9                 |
| Deposits from banks                                     | 4,539           | 3,907             | 16.2                |
| Securities loaned or sold under repurchase arrangements | 3,621           | 3,833             | (5.5)               |
| Bonds and subordinated debt notes                       | 8,765           | 9,570             | (8.4)               |
| Equity attributed to the Bank's shareholders            | 13,769          | 13,288            | 3.6                 |
| <b>Total equity</b>                                     | <b>14,181</b>   | <b>13,634</b>     | <b>4.0</b>          |

Footnote:

(1) Excluding balances classified as assets and liabilities held for sale - see Note 18 to the condensed financial statements.

Following are details regarding credit to the public, securities and deposits from the public.

### CREDIT TO THE PUBLIC

**General.** Credit to the public, net, (after provision for credit losses) as at June 30, 2016 totaled NIS 133,092 million, compared with NIS 127,216 million at the end of 2015, an increase of 4.6%.

For details regarding the credit portfolio, see the 2015 Annual Report (pp. 37-42). For details regarding credit risk management including the housing credit portfolio at the Discount Group, see "Credit risk" in Chapter C hereunder and in the 2015 Annual Report (pp. 88-106). For details regarding the quality of credit, see Note 14 B 3 to the condensed financial statements and in the 2015 Annual Report (p. 326).

### COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

#### Data on the composition of net credit to the public by linkage segments

|  | June 30, 2016   |                                 | December 31, 2015 |                                 |                     |
|--|-----------------|---------------------------------|-------------------|---------------------------------|---------------------|
|  | In NIS millions | % of total credit to the public | In NIS millions   | % of total credit to the public | Rate of change in % |
| Non-linked shekels                                   | 89,015          | 66.9                            | 83,196            | 65.4                            | 7.0                 |
| CPI-linked shekels                                   | 15,475          | 11.6                            | 14,854            | 11.7                            | 4.2                 |
| Foreign currency and foreign currency-linked shekels | 28,602          | 21.5                            | 29,166            | 22.9                            | (1.9)               |
| <b>Total</b>   | <b>133,092</b>  | <b>100.0</b>                    | <b>127,216</b>    | <b>100.0</b>                    | <b>4.6</b>          |



Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 1.9% compared with December 31, 2015. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US\$38 million, a decrease of 0.5% as compared to December 31, 2015. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 5.0% as compared to December 31, 2015.

## COMPOSITION OF CREDIT TO THE PUBLIC BY REGULATORY SEGMENTS OF OPERATIONS

### Review of developments in the balance of net credit to the public, by regulatory segments of operations

|  | June 30,<br>2016 | December<br>31,<br>2015 |                |
|--|------------------|-------------------------|----------------|
|  | In NIS millions  |                         | Change<br>in % |
| <b>Domestic operations:</b>            |                  |                         |                |
| Households <sup>(1)</sup>              | 47,575           | 44,196                  | 7.6            |
| Private banking <sup>(1)</sup>         | 183              | 158                     | 15.8           |
| Small and minute businesses            | 32,333           | 31,308                  | 3.3            |
| Medium businesses                      | 14,237           | 13,205                  | 7.8            |
| Large businesses                       | 19,467           | 18,614                  | 4.6            |
| Institutional bodies                   | 432              | 466                     | (7.3)          |
| <b>Total Domestic operations</b>       | <b>114,227</b>   | <b>107,947</b>          | <b>5.8</b>     |
| <b>International operations:</b>       |                  |                         |                |
| Private Individuals                    | 1,574            | 1,578                   | (0.3)          |
| Business operations                    | 19,384           | 19,743                  | (1.8)          |
| <b>Total International operations</b>  | <b>20,958</b>    | <b>21,321</b>           | <b>(1.7)</b>   |
| <b>Total credit to the public</b>      | <b>135,185</b>   | <b>129,268</b>          | <b>4.6</b>     |
| Allowance for credit loss expenses     | (2,093)          | (2,052)                 | 2.0            |
| <b>Total credit to the public, net</b> | <b>133,092</b>   | <b>127,216</b>          | <b>4.6</b>     |
| (1) Of which - Mortgages               | 23,508           | 21,808                  | 7.8            |

The credit to the retail segment (households and small and minute businesses), the growth therein comprises a focus point in the strategic plan, amounted at June 30, 2016 to NIS 79,908 million, an increase of NIS 4,404 million compared with December 31, 2015, which reflects a growth of 5.8% (an increase of NIS 8,160 million compared with June 30, 2015, expressing a growth of 11.4%). Housing loans amounted at June 30, 2016 to NIS 23,508 million, an increase of NIS 1,700 million compared to December 31, 2015, reflecting a growth of 7.8% (an increase of NIS 2,707 million compared with June 30, 2015, reflecting a growth of 13.0%).

**COMPOSITION OF THE OVERALL CREDIT TO THE PUBLIC RISK BY ECONOMIC SECTORS****Developments of total credit to the public risk, by main economic sectors**

| Economic Sectors                                    | June 30, 2016                   |                             | December 31, 2015               |                             | Rate of change |
|---|---------------------------------|-----------------------------|---------------------------------|-----------------------------|----------------|
|   | Total credit to the public risk | Rate from total credit risk | Total credit to the public risk | Rate from total credit risk |                |
|   | in NIS millions                 | %                           | in NIS millions                 | %                           |                |
| Industry  | 19,571                          | 9.1                         | 20,551                          | 9.9                         | (4.8)          |
| Construction and real estate - construction         | 19,804                          | 9.2                         | 16,480                          | 8.0                         | 20.2           |
| Construction and real estate - real estate activity | 19,206                          | 8.9                         | 21,142                          | 10.2                        | (9.2)          |
| Commerce  | 25,540                          | 11.8                        | 24,549                          | 11.9                        | 4.0            |
| Financial services                                  | 21,949                          | 10.2                        | 19,781                          | 9.6                         | 11.0           |
| Private individuals - housing loans                 | 25,935                          | 12.0                        | 23,492                          | 11.4                        | 10.4           |
| Private individuals - other                         | 49,860                          | 23.1                        | 48,301                          | 23.4                        | 3.2            |
| Other sectors                                       | 33,795                          | 15.7                        | 32,306                          | 15.6                        | 4.6            |
| <b>Total overall credit to the public risk</b>      | <b>215,660</b>                  | <b>100.0</b>                | <b>206,602</b>                  | <b>100.0</b>                | <b>4.4</b>     |

The data presented above indicates that in the first half of 2016, the overall risk regarding credit to the public increased by 4.4% compared with the end of 2015. This growth applied mostly to credit granted to construction and real estate - construction, private individuals – housing loans, private individuals – other and financial services. In the meantime, a decrease occurred in the overall risk regarding credit to the industry and construction and real estate - real estate activity sectors.

**DEVELOPMENT OF PROBLEMATIC CREDIT RISK**

Following are details on credit to the public, as specified in Note 14 to the condensed financial statements:

**Impaired credit to the public.** The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at June 30, 2016 to approx. NIS 2,738 million, compared to NIS 2,944 million at December 31, 2015, a decrease of 7.0%.

**Impaired non-accruing credit to the public.** The impaired non-accruing credit to the public which is examined on a specific basis, amounted at June 30, 2016 to approx. NIS 2,307 million, compared to NIS 2,492 million at December 31, 2015, a decrease at a rate of 7.4%.

**Overall credit risk and the rate of problematic credit risk in principal economic sectors**

| Economic Sectors                                    | June 30, 2016     |                                   |                          | December 31, 2015 |                                   |                          |
|---|-------------------|-----------------------------------|--------------------------|-------------------|-----------------------------------|--------------------------|
|   | Total credit risk | Of which: Problematic credit risk | Rate of problematic risk | Total credit risk | Of which: Problematic credit risk | Rate of problematic risk |
|   | in NIS millions   |                                   | %                        | in NIS millions   |                                   | %                        |
| Industry  | 19,571            | 604                               | 3.1                      | 20,551            | 368                               | 1.8                      |
| Construction and real estate - construction         | 19,804            | 442                               | 2.2                      | 16,480            | 408                               | 2.5                      |
| Construction and real estate - real estate activity | 19,206            | 776                               | 4.0                      | 21,142            | 958                               | 4.5                      |
| Commerce  | 25,540            | 1,163                             | 4.6                      | 24,549            | 938                               | 3.8                      |
| Financial services                                  | 21,949            | 191                               | 0.9                      | 19,781            | 219                               | 1.1                      |
| Private individuals - housing loans                 | 25,935            | 334                               | 1.3                      | 23,492            | 360                               | 1.5                      |
| Private individuals - other                         | 49,860            | 365                               | 0.7                      | 48,301            | 359                               | 0.7                      |
| Other Sectors                                       | 33,795            | 1,682                             | 5.0                      | 32,306            | 1,511                             | 4.7                      |
| <b>Total Public</b>                                 | <b>215,660</b>    | <b>5,557</b>                      | <b>2.6</b>               | <b>206,602</b>    | <b>5,121</b>                      | <b>2.5</b>               |
| Banks   | 9,716             | 402                               | 4.1                      | 10,735            | 102                               | 1.0                      |
| Governments   | 25,025            | 208                               | 0.8                      | 25,176            | 27                                | 0.1                      |
| <b>Total</b>  | <b>250,401</b>    | <b>6,167</b>                      | <b>2.5</b>               | <b>242,513</b>    | <b>5,250</b>                      | <b>2.2</b>               |

In the first half of 2016, the ratio of problematic credit risk to the total credit risk had risen slightly. There was a rise in the percentage of the problematic debt in the industry, commerce, banking and governments sectors. On the other hand, there was a reduction in the percentage of the problematic debt in the construction and real estate - real estate activity, financial services and construction and real estate - construction sectors.

**THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES**

**The balance of the allowance for credit losses.** The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,093 million as of June 30, 2016. The balance of this allowance constitutes 1.55% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,052 million, constituting 1.59% of the credit to the public as of December 31, 2015.

**The balance of the specific allowance for credit losses.** The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 475 million on June 30, 2016, compared to NIS 463 million on December 31, 2015, an increase of 2.6%.

**The balance of the group allowance for credit losses.** The outstanding balance of the group allowance for credit losses, excluding housing loans for which the allowance for credit loss was calculated according to the extent of arrears, amounted on June 30, 2016 to NIS 1,452 million, compared to NIS 1,416 million as of December 31, 2015, comprising an increase in the current allowance in the amount of NIS 36 million, a rate of 2.5%.

**THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO**

**The rate of expense (expense reversal) in respect of credit losses, according to economic sectors, in relation to the balance of credit to the public in those economic sectors (annualized)**

|   | For the six months ended June 30 |             |
|---|----------------------------------|-------------|
|   | 2016                             | 2015        |
| sectors   | in %                             |             |
| Agriculture   | (1.1)                            | (1.4)       |
| Construction and Real Estate - Construction         | (0.3)                            | (0.3)       |
| Construction and Real Estate - Real Estate Activity | (0.3)                            | (1.5)       |
| Electricity and Water                               | 0.1                              | 0.2         |
| Commerce  | 0.5                              | 1.4         |
| Industry  | (0.6)                            | (0.8)       |
| Hotels, Hotel Services and Food                     | 1.4                              | (1.0)       |
| Transportation and Storage                          | 0.2                              | (2.0)       |
| Communication and Computer Services                 | (0.2)                            | 11.0        |
| Financial Services                                  | 0.2                              | (1.0)       |
| Public and Community Services                       | 0.4                              | -           |
| Private Individuals - Other                         | 0.7                              | -           |
| <b>Total overall credit to the public risk</b>      | <b>0.16</b>                      | <b>0.01</b> |

**Proportionate share of credit loss expenses (expenses reversal) of certain economic sectors of the total periodic credit loss expenses**

|   | For the six months ended June 30        |          |
|---|---|----------|
|   | 2016                                    | 2015     |
| sectors   | Credit loss expenses<br>In NIS millions |          |
| Agriculture   | (5)                                     | (6)      |
| Mining & Quarrying                                  | -                                       | (1)      |
| Industry  | (37)                                    | (51)     |
| Construction and real estate - construction         | (14)                                    | (10)     |
| Construction and real estate - real estate activity | (23)                                    | (119)    |
| Electricity and water                               | 1                                       | 2        |
| Commerce  | 52                                      | 129      |
| Hotels, hotel services and food                     | 18                                      | (6)      |
| Transportation and storage                          | 5                                       | (31)     |
| Communications and computer services                | (2)                                     | 97       |
| Financial services                                  | 11                                      | (29)     |
| Other business services                             | 1                                       | 12       |
| Public and community services                       | 9                                       | 1        |
| Private Individuals - Housing Loans                 | 9                                       | 1        |
| Private Individuals - Other                         | 81                                      | 17       |
| <b>Total Public</b>                                 | <b>106</b>                              | <b>6</b> |
| Total Banks   | (2)                                     | (2)      |
| <b>Total</b>  | <b>104</b>                              | <b>4</b> |

The data presented above indicates that the rise in credit loss expenses in the first half of 2016, centered mostly in the private individuals - other, financial services, and hotels, hotel services and food sectors. On the other hand, credit loss expenses decreased in the commerce, communications and computer services and other business services sectors.

## SECURITIES

**General.** Securities in the Nostro portfolio totaled NIS 38,053 million as of June 30, 2016, compared with NIS 38,935 million at the end of 2015, a decrease of 2.3%. It is clarified that the "Nostro" portfolio of the Discount Group as of June 30, 2016, did not include any security the investment in which comprised 5% or over of the value of the total portfolio, except for a security of the "government variable 520" type and security of the "government variable 1121" type, which amounted to 7.7%, and 7.0% of the total portfolio, respectively.

As of June 30, 2016, some 60% of the portfolio is invested in Government bonds, and 6% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the quarterly report", appendix 2, items 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the quarterly report" – appendix 3, item 3.

For details regarding the Nostro portfolios management policy, see 2015 Annual Report (pp. 43-46).

**The First International Bank of Israel Ltd. ("FIBI").** On February 1, 2016, the Bank sold the balance of the shares in FIBI, comprising approx. 9.28% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 44.70 per share. Following the said sale, the loss recorded as a capital reserve in the December 31, 2015 financial statements has been realized and recognized in the statement of income, in the net amount of NIS 53 million, which reflects an impairment in value of the share until December 31, 2015. An additional loss on the sale in the amount of NIS 12 million was recorded in the financial statements as of March 31, 2016. Completion of this move constitutes the Bank's attainment of the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale.

### COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

#### Composition of the securities portfolio by linkage segments

|  | June 30, 2016   | December 31, 2015 | Rate of change in % |
|--|-----------------|-------------------|---------------------|
|  | In NIS millions |                   |                     |
| Non-linked shekels                                   | 16,550          | 16,776            | (1.3)               |
| CPI-linked shekels                                   | 4,240           | 4,048             | 4.7                 |
| Foreign currency and foreign currency-linked shekels | 16,337          | 16,808            | (2.8)               |
| Shares - non-monetary items                          | 926             | 1,303             | (28.9)              |
| <b>Total</b>   | <b>38,053</b>   | <b>38,935</b>     | <b>(2.3)</b>        |

Securities in foreign currency and in Israeli currency linked to foreign currency decrease by 2.8%, compared with December 31, 2015. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency decreased by US\$60 million, a decrease of 1.4% as compared with December 31, 2015. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms decreased by 1.7% as compared with December 31, 2015.

### COMPOSITION OF THE SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

In accordance with directives of the Supervisor of Banks, securities have been classified into three categories: held-to-maturity bonds portfolio, available-for-sale securities portfolio, and trading securities portfolio.

**Composition of investments in securities according to portfolio classification In accordance with directives of the Supervisor of Banks**

|                         | June 30, 2016                         |               | December 31, 2015 |                                       |               |               |
|-------------------------|---------------------------------------|---------------|-------------------|---------------------------------------|---------------|---------------|
|                         | Amortized<br>Cost (in<br>shares-cost) | Fair value    | Book<br>value     | Amortized<br>Cost (in<br>shares-cost) | Fair value    | Book<br>value |
|                         | in NIS millions                       |               |                   |                                       |               |               |
| <b>Bonds</b>            |                                       |               |                   |                                       |               |               |
| Held to maturity        | 6,772                                 | 7,221         | 6,772             | 7,003                                 | 7,409         | 7,003         |
| Available for sale      | 26,772                                | 27,155        | 27,155            | 27,452                                | 27,674        | 27,674        |
| Trading                 | 3,187                                 | 3,200         | 3,200             | 2,962                                 | 2,955         | 2,955         |
| <b>Shares</b>           |                                       |               |                   |                                       |               |               |
| Available for sale      | 915                                   | 919           | 919               | 1,294                                 | 1,296         | 1,296         |
| Trading                 | 8                                     | 7             | 7                 | 8                                     | 7             | 7             |
| <b>Total Securities</b> | <b>37,654</b>                         | <b>38,502</b> | <b>38,053</b>     | <b>38,719</b>                         | <b>39,341</b> | <b>38,935</b> |

**Corporate bonds.** Discount Group's available for sale securities portfolio as of June 30, 2016, includes investments in corporate bonds in the amount of NIS 3,738 million (including an amount of NIS 412 million held by IDB New York, an amount of NIS 225 million, held by Mercantile and NIS 3,101 million directly held by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 5 to the condensed financial statements.

**INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES**

**Investments in mortgage and asset backed securities – general.** Discount Group's securities portfolio as of June 30, 2016 includes investment in mortgage backed securities, in the amount of US\$2,222 million, which are held by IDB New York, compared to an amount of US\$2,211 million as at December 31, 2015. The majority of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac). The investment in the said bonds does not include exposure to the subprime market.

As of June 30, 2016, the portfolio of mortgage backed securities (MBS) and asset backed securities (ABS) included unrealized net gains of US\$29 million.

For details regarding the agencies operating under the auspices of the U.S. Administration, see the 2015 Annual Report (pp. 44-45).

**CMBS.** For details regarding exposure to commercial mortgage backed securities (CMBS) in immaterial amounts, see in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

**CLO.** IDB New-York holds secured bonds of the CLO class in a total amount of US\$100 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 5 to the condensed financial statements.

**DETAILS REGARDING IMPAIRMENT IN VALUE OF AVAILABLE FOR SALE SECURITIES**

**General.** The point in time for determining the length of the period in which the investment was in a continuous unrealized loss position, is the date of the financial statements for the reporting period during which a continuous impairment first occurred. The rate of the decline in the fair value below cost is computed as of the reporting date. This is so even if during the period in which the investment was in a continuous unrealized loss position, the rate of decline in fair value below cost was significantly different from the rate applying on the reporting date.

For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2015 Annual Report (p. 130) and Note 1 D 5 to the financial statements as of December 31, 2015 (pp. 177-179).

Based on a review of the impairment of the said securities as of June 30, 2016, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that the impairment is of a temporary nature.

As at June 30, 2016, unrealized accumulated losses in respect of available-for sale shares amounted to an amount of NIS 1 million. As

at June 30, 2015 and December 31, 2015, an amount of NIS 15 million and NIS 1 million, respectively. As of June 30, 2016, June 30, 2015 and December 31, 2015, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to total amounts of NIS 11 million, NIS 54 million and NIS 64 million, respectively. For additional details, see Note 5 to the condensed financial statements.

## CUSTOMER ASSETS

**Deposits from the public** as at June 30, 2016, totalled NIS 161,987 million, compared with NIS 157,404 million at the end of 2015, an increase of 2.9%.

### Data on the composition of deposits from the public by linkage segments

|  | June 30, 2016   |                                     | December 31, 2015 |                                     | Rate of change in % |
|--|-----------------|-------------------------------------|-------------------|-------------------------------------|---------------------|
|  | In NIS millions | % of total Deposits from the public | In NIS millions   | % of total Deposits from the public |                     |
| Non-linked shekels                                   | 100,061         | 61.8                                | 95,088            | 60.4                                | 5.2                 |
| CPI-linked shekels                                   | 5,539           | 3.4                                 | 6,473             | 4.1                                 | (14.4)              |
| Foreign currency and foreign currency-linked shekels | 56,387          | 34.8                                | 55,843            | 35.5                                | 1.0                 |
| <b>Total</b>   | <b>161,987</b>  | <b>100.0</b>                        | <b>157,404</b>    | <b>100.0</b>                        | <b>2.9</b>          |

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 1.0%, compared with December 31, 2015. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US\$350 million, an increase of 2.4% compared with December 31, 2015. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 3.4%, compared with December 2015.

### Review of developments in the balance of deposits from the public, by regulatory segments of operations

|                                       | June 30, 2016   | December 31, 2015 | Change in % |
|---------------------------------------|-----------------|-------------------|-------------|
|                                       | In NIS millions | In NIS millions   |             |
| <b>Domestic operations:</b>           |                 |                   |             |
| Households <sup>(1)</sup>             | 66,075          | 63,884            | 3.4         |
| Private banking <sup>(1)</sup>        | 16,476          | 15,279            | 7.8         |
| Small and minute businesses           | 25,363          | 26,043            | (2.6)       |
| Medium businesses                     | 6,286           | 5,735             | 9.6         |
| Large businesses                      | 11,422          | 9,577             | 19.3        |
| Institutional bodies                  | 10,793          | 11,735            | (8.0)       |
| <b>Total Domestic operations</b>      | <b>136,415</b>  | <b>132,253</b>    | <b>3.1</b>  |
| <b>International operations:</b>      |                 |                   |             |
| Private Individuals                   | 19,172          | 20,268            | (5.4)       |
| Business operations                   | 6,400           | 4,883             | 31.1        |
| <b>Total International operations</b> | <b>25,572</b>   | <b>25,151</b>     | <b>1.7</b>  |
| <b>Total deposits from the public</b> | <b>161,987</b>  | <b>157,404</b>    | <b>2.9</b>  |

The ratio of total credit to the public, net, to deposits from the public was 82.2% as at June 30, 2016, compared with 80.8% at the end of 2015.

**Deposits from the public of the three largest depositor groups** amounted as of June 30, 2016, to NIS 5,492 million.

**Securities held for customers.** On June 30, 2016, the balance of the securities held for customers at the Bank amounted to approx. NIS 163.9 billion, including approx. NIS 4.2 billion of non-marketable securities, compared to approx. NIS 164.4 billion as at December 31, 2015, including approx. NIS 4.6 billion of non-marketable securities, a decrease of 0.3%. For details as to income from security activities, see Note 3 to the condensed financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of June 30, 2016, amounted to NIS 10.13 billion, compared with NIS 10.3 billion in December 31, 2015, a decrease of 1.7%.

**Investment portfolio management.** On June 30, 2016, Tafnit was managing investment portfolios, overall valued at approx. NIS 6,492 million, as compared to approx. NIS 6,637 million as at December 31, 2015, a decrease of 2.2%.

**Pension advisory services.** The total cumulative assets of customers receiving pension consulting services from the Bank as at June 30, 2016, amounting to NIS 13.6 billion, compared with NIS 13.7 billion as of December 31, 2015, a decrease of 1.5%.

Until June 30, 2016, some 32,500 customers receiving consulting services have signed the form "Continuous authorization for obtaining information and delivering requests for the execution of transactions (Appendix "B")". The total accumulation of these customers amount to NIS 9.8 billion, comprising approx. 72% of the total accumulation of all customers receiving consulting services at the Bank. (For additional details regarding the duty to obtain signatures, as stated, see the 2015 Annual Report, p. 459).

## CAPITAL AND CAPITAL ADEQUACY

### IMPLEMENTATION OF BASEL III IN ISRAEL

**The instructions.** Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal ratio of common equity tier 1 of 9%, and a total capital ratio of 12.5% (from January 1, 2015), as well as detailed reference with respect to transitional instructions.

**Restrictions on the granting of housing loans.** For details regarding the amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on housing loans", in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and total capital ratio, see Note 9 B to the condensed financial statements.

**Future issues of capital instruments.** The capital instruments that would be issued according to Basel III instructions, will include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

**Effect of the transitional instruction included in Proper Conduct of Banking Business Directive No. 299 ("the Instruction").** Among other things, the Instruction included transitional instruction, which allow, in certain of the matters, a gradual implementation over a number of years. Below are presented the short-term (one year) and the long-term (termination of the transitional instructions) effects of the adoption of the Instruction.

**The effect of adoption of the Directive on ratio of common equity tier 1 - short-term effect.** The transitional instructions stated in the Directive determine a gradual adoption of the more stringent requirements included therein. The Bank estimates that had the guidelines of the Directive been implemented as of June 30, 2016, on the basis of the data for that date and the transitional instructions as would apply on June 30, 2017, including the impact of the implementation of the instruction regarding employee rights (see in 2015 Annual Report, pp. 160-161), without the consideration of income accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.1%.

**The effect of adoption of the Directive on ratio of common equity tier 1 - long-term effect.** The Bank estimates that had the guidelines included in the Directive been implemented in full as of June 30, 2016, on the basis of the data for this date, and without taking into account the provisional instructions (a situation equal to the situation that will prevail in 2018, approx. five years after the date of initial implementation of the directive, including the effect of the directive regarding employee rights, though without taking into consideration earnings that will accumulate during the period), the ratio of common equity tier 1 would have declined by 0.2%.

It should be emphasized that the data presented above, as an estimate of the short and long-term effect, forms an estimate only. Moreover, the said estimates assume a situation of static existence of the data as of June 30, 2016, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as



a result of the accumulation of current earnings and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result will inevitably be different than from the estimates stated above.

**Preparations made by the Bank.** The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the instructions of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

## COMMON EQUITY TIER 1 GOAL

The policy approved by the Board of Directors, which reflects the Bank's risk appetite, is to maintain a higher capital adequacy level than the minimum level required by the Supervisor of Banks, and also higher than the rate required by the ICAAP result.

The Bank has adopted a capital outline for the gradual increase in the Common Equity Tier 1 goal up to a level of 10% at the end of 2019. For details regarding capital planning, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for viewing on the Internet.

## IMPLEMENTATION EFFECTS OF THE INSTRUCTIONS REGARDING EMPLOYEE RIGHTS

Starting with January 1, 2015, the Bank implements the instruction regarding employee rights. The instruction is implemented by way of retroactive implementation of the comparative data for periods beginning January 1, 2013 and thereafter. For additional details regarding the instruction and the effect of its implementation, see below and in the 2015 Annual Report (pp. 160-165).

It should be noted that Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of four years. Respectively, an amount comprising 40% was deducted on January 1, 2015, an additional amount was deducted on January 1, 2016, comprising 20%, and the balance will be deducted in equal parts in the years 2017-2018.

## COMPONENTS OF CAPITAL

**Total capital** as at June 30, 2016, totalled NIS 14,181 million, compared with NIS 13,634 million at the end of 2015, an increase of 4.0%.

**Equity attributed to the Bank's shareholders** as at June 30, 2016, totalled NIS 13,769 million, compared with NIS 13,288 million at the end of 2015, a decrease of 3.6%. The change in equity attributed to the Bank's shareholders in the first half of 2016 was affected, among other things, by the net earnings during the period, by an increase of NIS 110 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect and from a decrease of NIS 47 million in financial statements transactions adjustments and from the net actuarial loss in the amount of NIS 160 million.

**The ratio of total capital to total assets**, as at June 30, 2016, reached a rate of 6.6%, compared with 6.6% at the end of 2015.

## COMPONENTS OF THE REGULATORY CAPITAL AS OF JUNE 30, 2016

**General.** As stated, starting with January 1, 2014, the new instructions in accordance with the Basel III guidelines gradually came into effect. The data presented below reflects deductions, in accordance with the transitional instructions.

**Ratio of common equity tier 1** as of June 30, 2016, amounted to 9.5%, similar to December 31, 2015.

**Total capital ratio** as of June 30, 2016, amounted to 13.8%, compared with 14.3% on December 31, 2015.

**Components of the regulatory capital as of June 30, 2016**

|   | June 30,            | December 31,        |                     |
|---|---------------------|---------------------|---------------------|
|   | 2016                | 2015                | 2015                |
|   | in NIS millions     |                     |                     |
| <b>1. Capital for Calculating ratio of capital</b>                  |                     |                     |                     |
| Common equity tier 1 after deductions                               | 14,113              | 13,353              | 13,549              |
| Additional tier 1 capital after deductions                          | 1,068               | 1,247               | 1,247               |
| Tier 1 capital  | 15,181              | 14,600              | 14,796              |
| Tier 2 capital  | 5,236               | 5,683               | 5,610               |
| <b>Total capital</b>  | <b>20,417</b>       | <b>20,283</b>       | <b>20,406</b>       |
| <b>2. Weighted risk assets balance</b>                              |                     |                     |                     |
| Credit risk   | 131,477             | 123,778             | 126,907             |
| Market risk   | 3,143               | 2,677               | 2,435               |
| CVA risk  | 1,334               | 1,230               | 788                 |
| Operational risk  | 12,106              | 12,404              | 12,330              |
| <b>Total weighted risk assets balance</b>                           | <b>148,060</b>      | <b>140,089</b>      | <b>142,460</b>      |
| <b>3. Ratio of capital to risk assets</b>                           |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                        | 9.5                 | 9.5                 | 9.5                 |
| Ratio of total capital to risk assets                               | 13.8                | 14.5                | 14.3                |
| <b>Ratio of minimum capital required by the Supervisor of Banks</b> |                     |                     |                     |
| Ratio of common equity tier 1                                       | <sup>(1)</sup> 9.1  | <sup>(1)</sup> 9.0  | <sup>(1)</sup> 9.1  |
| Total capital ratio   | <sup>(1)</sup> 12.6 | <sup>(1)</sup> 12.5 | <sup>(1)</sup> 12.6 |

Footnote:

(1) With an addition of 0.1% (June 30, 2015: 0.02%, December 31, 2015: 0.06%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 (b) to the condensed financial statements.

**RAISING OF RESOURCES**

**Subtraction of regulatory capital instruments in 2016.** Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2022. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2022. Regulatory capital instruments, which are to be subtracted in the course of July-December 2016, in accordance with the transitional provisions, amount to NIS 167 million.

NIS 575 million were deducted in the first half of 2016 (of which an amount of NIS 385 million would have been deducted also in accordance with the Basel II instructions).

Despite the subtraction of supervisory capital instruments (tier 2 capital) as stated, according to the Bank's work plan for the year 2016, the raising of tier 2 capital in order to reach the overall capital goals for 2016, is not required.

**ADDITIONAL DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL**

Within the framework of the "Additional regulatory disclosures" document, a description is given of the principal characteristics of the issued regulatory capital instruments. Within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks" a disclosure is given of The Regulatory capital and management thereof, including the composition of the regulatory capital. The documents are available for perusal on the Magna Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

## ACTIVITY OF THE GROUP ACCORDING TO REGULATORY SEGMENTS OF OPERATIONS – PRINCIPAL QUANTITATIVE DATA AND MAIN DEVELOPMENTS

### GENERAL

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The regulatory operating segments have been defined by the Supervisor of Banks in the new directives, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.

According to the instructions, the required disclosure is entering into effect as follows: the financial statements for 2015 include disclosure of the balance sheet items of the regulatory operating segments. The full disclosure requirements entered into effect as from the condensed financial statements as of March 31, 2016.

According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). However, in accordance with new directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only.

Note 13 to the condensed financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments is presented in Notes 12 and 13 to the condensed financial statements, p. 154 below.

For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal assumptions, estimates and principles used in the preparation of segment information, see Note 30 to the financial statements as of December 31, 2015 (p. 305).

### HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS)

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#### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

**The segment's loss** in the first half of 2016 amounted to NIS 195 million, compared to a loss in the amount of NIS 136 million in the corresponding period last year.

**The credit loss expenses** in this segment in the first half of 2016 amounted to NIS 91 million, compared with NIS 6 million in the corresponding period last year.

**Principal data regarding the household segment (Domestic operations)**

|  | For the three months ended June 30, |      | For the six months ended June 30, |       | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|-------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015  | 2015                            |
|  | in NIS millions                     |      |                                   |       |                                 |
| Total income                               | 660                                 | 595  | 1,276                             | 1,215 | 2,479                           |
| Credit loss expenses                       | 54                                  | 22   | 91                                | 6     | 72                              |
| Total Operating and other expenses         | 710                                 | 686  | 1,423                             | 1,380 | 2,766                           |
| Loss Attributed to the bank's shareholders | (84)                                | (91) | (195)                             | (136) | (293)                           |

**DEVELOPMENTS IN THE SEGMENT**

The Bank continued in the first half of 2016 to implement the Group strategic plan approved in 2014, which had defined the household segment as one of the segments in focus, on which the Group is to focus in the coming years, as a central growth engine. The strategy is based on three principal layers: focusing on intensifying relations with existing customers of the Group; focusing on growth products – private credit, and on growth segments – wealthy customers (at Discount Bank), customers of the Arab sector and the ultra-orthodox sector (at MDB); and improvement of the retail infrastructure, which among other things includes improvement of the service model and of the customer's experience.

Several actions were taken in the first half of 2016, in order to attain the multi-annual targets:

- There has been further progress in the gradual process of removing operational activities from the branches and in the streamlining of work processes at the branches aimed at giving bank tellers the time to strengthen the contact with customers and to improve the service experience and the sales with customers; the operational activity is now performed at the banking service center, which began operations in January 2016; concurrently, a smart telephonic system is being installed which supports the strengthening of relations with customers increasing the availability on the phone of bank staff at the branch network and improving the overall service. The "Telebank" supports the creation of service coverage for the customer by increasing availability and telephone response to bank customers, through use of new technological tools.

The first part of integrating the change process had been completed at 43 of the Bank's branches by the end of the second quarter. The integration process includes a comprehensive training stage for the branch's employees, during which emphasis is placed on increasing initiative and sales based on customer-needs, with this also being conducted by means of computerized training systems;

- The Telebank focuses on improvement of response time to all customers, introducing value offers and sales into incoming calls and operating a sales center by means of initiated calls to all Bank customers.

For additional details regarding the household segment (Domestic operations), including details regarding mortgage activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's loss in the first half of 2016 amounted to NIS 6 million, similar to the corresponding period last year.

#### Principal data regarding the Private Banking segment (Domestic operations)

|   | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|---|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|   | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
| in NIS millions                                       |                                     |      |                                   |      |                                 |
| Total income  | 27                                  | 29   | 59                                | 51   | 103                             |
| Credit loss expenses (expenses reversal)              | 1                                   | (1)  | 1                                 | (1)  | (1)                             |
| Total Operating and other expenses                    | 33                                  | 31   | 66                                | 62   | 120                             |
| Gain Net (Loss) Attributed to the bank's shareholders | (5)                                 | 1    | (6)                               | (6)  | (11)                            |

### DEVELOPMENTS IN THE SEGMENT

As part of the risk management in the foreign residents sector, during the first quarter of 2016, measures commenced of concentrating customers of the Bank holding passive balances of US\$1 million and over at the international private banking center.

For further details, see the 2015 Annual Report, p. 64.

For additional details regarding the Private Banking segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## SMALL AND MINUTE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The net gain in the first half of 2016 amounted to NIS 112 million, compared to an amount of NIS 154 million in the corresponding period last year.

The credit loss expenses in this segment in the first half of 2016 amounted to NIS 43 million, compared to NIS 6 million in the corresponding period last year.

#### Principal data regarding the Small and minute businesses segment (Domestic operations)

|  | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
| in NIS millions                                  |                                     |      |                                   |      |                                 |
| Total income                                     | 464                                 | 455  | 917                               | 914  | 1,832                           |
| Credit loss expenses (expenses reversal)         | -                                   | (6)  | 43                                | 6    | 32                              |
| Total Operating and other expenses               | 329                                 | 320  | 673                               | 645  | 1,310                           |
| Net Income Attributed to the bank's shareholders | 80                                  | 80   | 112                               | 154  | 281                             |

For additional details regarding the Small and minute businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

**The net gain** in the first half of 2016 amounted to NIS 19 million, compared to a loss in an amount of NIS 22 million in the corresponding period last year.

**The credit loss expenses** in this segment in the first half of 2016 amounted to expenses reversal in the amount of NIS 23 million, compared to expenses reversal in the amount of NIS 56 million in the corresponding period last year.

#### Principal data regarding the Medium businesses segment (Domestic operations)

|   | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|---|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|   | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
|   | in NIS millions                     |      |                                   |      |                                 |
| Total income  | 105                                 | 79   | 215                               | 185  | 420                             |
| Credit loss expenses (expenses reversal)                | (1)                                 | 38   | 23                                | 56   | 89                              |
| Total Operating and other expenses                      | 78                                  | 86   | 158                               | 158  | 310                             |
| Net Income (loss) Attributed to the bank's shareholders | 18                                  | (32) | 19                                | (22) | 7                               |

For additional details regarding the Medium businesses segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

**The net gain** in the first half of 2016 amounted to NIS 203 million, compared to an amount of NIS 179 million in the corresponding period last year.

**The credit loss expenses** in this segment in the first half of 2016 amounted to expenses reversal of NIS 104 million, compared to expenses reversal of NIS 76 million in the corresponding period last year.

#### Principal data regarding the Large businesses segment (Domestic operations)

|  | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
|  | in NIS millions                     |      |                                   |      |                                 |
| Total income                                     | 174                                 | 176  | 350                               | 333  | 625                             |
| expenses reversal                                | (27)                                | (90) | (104)                             | (76) | (20)                            |
| Total Operating and other expenses               | 66                                  | 56   | 128                               | 115  | 239                             |
| Net Income Attributed to the bank's shareholders | 82                                  | 130  | 203                               | 179  | 249                             |

For additional details regarding the Large businesses segment (Domestic operations), including details regarding construction and real estate activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

**Purchase of a policy insuring against credit risk related to Sales Act guarantees and execution guarantees.** In May 2016, MDB completed the purchase of a policy insuring against credit risk related to Sales Act guarantees and execution guarantees issued within the framework of "closed project" financing, and which relates to a credit risk portfolio in the amount of NIS 1.8 billion.

In June 2016, the Bank completed the purchase of a policy insuring against credit risks on certain performance guarantees, which were granted not within the framework of "closed project" financing and which relate to a credit risks portfolio in the amount of NIS 2.8 billion.

These acquisitions are added to the acquisition of a policy insuring against credit risks on Sales Law guarantees and performance guarantees which are offered within the framework of "closed project" financing, whose purchase was completed in August 2015, which relate to a credit risks portfolio in the amount of NIS 6.2 billion. (All the amounts mentioned in this section above are in terms of the exposure as of June 30, 2016).

Within the framework of the insurance policy, the Bank transfers 80% of the credit risk involved in Sales Act guarantees and in commitments to issue such guarantees to an international consortium of reinsurers. According to Proper Conduct of Banking Business Directive No. 203, this transaction allows the Bank to reduce the risk assets by way of reducing the risk weight of exposure to a level of 20% or 50%, in line with the international rating of reinsurers.

## INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The existing and growing competition among banks and Stock Exchange members who are not banks, causes erosion in commission rates. Moreover, the low interest environment hinder the financing income from deposits.

**The segment's loss** in the first half of 2016 amounted to NIS 16 million, compared with a loss of NIS 11 million in the corresponding period last year.

#### Principal data regarding the Institutional bodies segment (Domestic operations)

|  | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
|  | in NIS millions                     |      |                                   |      |                                 |
| Total income                               | 6                                   | 9    | 16                                | 16   | 28                              |
| Credit loss expenses                       | 1                                   | 1    | 1                                 | 1    | 5                               |
| Total Operating and other expenses         | 20                                  | 16   | 37                                | 32   | 63                              |
| Loss Attributed to the bank's shareholders | (12)                                | (5)  | (16)                              | (11) | (26)                            |

For additional details regarding the Institutional bodies segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS)

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

**The net gain** in the first half of 2016 amounted to NIS 356 million, compared to an amount of NIS 259 million in the corresponding period last year.

Income and profits of the segment in the periods of three and six months ended June 30, 2016, were affected by the gain from sale of rights in VISA Europe and from a provision created by ICC (see Note 17 C to the condensed financial statements).

**Principal data regarding the Financial management segment (Domestic operations)**

|  | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
|  | in NIS millions                     |      |                                   |      |                                 |
| Total income                                     | 572                                 | 253  | 759                               | 473  | 734                             |
| Total Operating and other expenses               | 91                                  | 39   | 116                               | 73   | 137                             |
| Net Income Attributed to the bank's shareholders | 272                                 | 141  | 356                               | 259  | 394                             |

For additional details regarding the financial management segment (Domestic operations), including details regarding non-financial companies activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

## INTERNATIONAL OPERATIONS SEGMENT

### SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

**The net gain** in the first half of 2016 amounted to NIS 99 million, compared to NIS 105 million in the corresponding period last year.

**The credit loss expenses** in this segment in the first half of 2016 amounted to NIS 49 million, compared to NIS 12 million in the corresponding period last year.

**Principal data regarding the International operations segment**

|  | For the three months ended June 30, |      | For the six months ended June 30, |      | For the year ended December 31, |
|--|-------------------------------------|------|-----------------------------------|------|---------------------------------|
|  | 2016                                | 2015 | 2016                              | 2015 | 2015                            |
|  | in NIS millions                     |      |                                   |      |                                 |
| Total income                                     | 235                                 | 270  | 490                               | 563  | 1,057                           |
| Credit loss expenses                             | 30                                  | 8    | 49                                | 12   | 10                              |
| Total Operating and other expenses               | 137                                 | 184  | 280                               | 386  | 780                             |
| Net Income Attributed to the bank's shareholders | 42                                  | 46   | 99                                | 105  | 149                             |

For additional details regarding the International operations segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

### DEVELOPMENTS IN THE SEGMENT

**IDB (Swiss) Bank – in liquidation.** On February 26, 2016, the transaction for the sale of the operations of customers of IDB (Swiss) Bank, as defined in the agreement, was concluded. For additional details see Note 10 B 8 to the condensed financial statements.

Following the conclusion of the transaction, as stated, a Liquidator has been appointed for IDB (Swiss) Bank by the shareholders, and the name of the corporation has been changed to "IDB (Swiss) Bank – in liquidation" and the closure of the remaining accounts in the corporation was completed except for a secondary custodian account for customers of the purchasing bank. Moreover, actions are taking place for the preservation of banking information, as required by local laws, and to the return and cancellation of the bank's license in coordination with the Swiss Authorities (FINMA).



**The closing down of foreign extensions.** The representative office of IDB New York in Mexico was closed down in May 2016. The Central Bank of Argentina accepted in June 2016 the request of the Bank for the closing down of its representative office in Argentina, which was submitted already in 2012 (in practice, this representative office is inactive for several years).

## MAIN INVESTEE COMPANIES

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 366 million in the first half of 2016, compared to NIS 336 million in the corresponding period last year, an increase of 8.9%, and an income of NIS 544 million in all of 2015.

Following are the major developments in the Bank's main investee companies.

### DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. ("Bancorp") is a wholly owned subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp has full ownership and control of Israel Discount Bank of New York (IDB New York). IDB New York is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.

#### Discount Bancorp, Inc. – principal data

|   | In US\$ millions |                      |             |
|---|------------------|----------------------|-------------|
|   | June 30,<br>2016 | December<br>31, 2015 | Change in % |
| Balance sheet items                                     |                  |                      |             |
| Total assets  | 9,168            | 9,322                | (1.7)       |
| Total credit  | 5,389            | 5,397                | (0.1)       |
| Total deposits  | 7,162            | 7,301                | (1.9)       |
| Total equity  | 879              | 840                  | 4.6         |
| Ratio of total capital to risk assets                   | 14.1%            | 13.9%                |             |
| Income statement items for the six months ended June 30 | 2016             | 2015                 |             |
| Net income attributed to the shareholders               | 31               | 27                   | 14.8        |
| Return on equity  | 7.2%             | 6.8%                 |             |

For details regarding investments by IDB New York in mortgage backed securities, see Note 5 to the condensed financial statements hereunder.

**The sale of DBLA operations.** For details, see 2015 Annual Report (p. 234).

**The contribution of Bancorp to the Bank's net results** reached a profit of NIS 97 million in the first half of 2016 (after deducting a provision for taxes of NIS 21 million), compared with NIS 98 million in the first half of 2015 (after deducting a provision for taxes of NIS 6 million).

**Material weakness.** A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's financial statement will not be prevented, or detected and corrected in a timely basis. During the fourth quarter of 2015, a material weakness was identified related to the controls over IDB's evaluation and assessment of the adequacy of specific reserves on impaired loans, including the control over the completeness and accuracy of the information used to measure specific reserves. This material weakness did not result in any material misstatement of IDB's consolidated financial statements for any period presented.

The Bank's Management has examined the materiality of the findings and has reached the opinion that they are immaterial in relation to the consolidated financial statements, and that therefore, no material weakness exists at the Group level.

IDB New York has formed a work plan for the completion of the treatment of the material weakness until the end of 2016. The plan

includes a revised definition of the work procedure and the addition of controls, examination of the process from "one end to another" by the internal audit and an independent review by the SOX unit. All these are designed to lead to the removal of the material weakness from the 2016 annual report.

The annual financial statements of Bancorp and of IDB New York are available for review on the Internet website of IDB New York (IDB Bank).

## MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("Mercantile Discount") is a wholly-owned and controlled subsidiary of the Bank.

### Mercantile Discount Bank – principal data

| Balance sheet items  | In NIS millions |                   | Change in % |
|--|-----------------|-------------------|-------------|
|  | June 30, 2016   | December 31, 2015 |             |
| Total assets   | 30,814          | 30,076            | 2.5         |
| Total credit to the public, net                                | 21,508          | 20,417            | 5.3         |
| Total deposits from the public                                 | 25,815          | 25,388            | 1.7         |
| Total equity   | 2,172           | 2,103             | 3.3         |
| Ratio of total capital to risk assets                          | 13.7%           | 14.0%             | -           |
| <b>Income statement items for the six months ended June 30</b> |                 |                   |             |
|  | 2016            | 2015              |             |
| Net income attributed to the shareholders                      | 90              | 141               | (36.2)      |
| Return on equity   | 8.6%            | 14.9%             |             |

**The principal factors affecting the business results.** The decrease in income in the first half of 2016 was affected, inter alia, from an increase of NIS 34 million in interest income; by a decrease in the amount of NIS 42 million in non-interest financing income, stemming mainly from a decrease in the amount of NIS 25 million in the gains on realization of securities, by an increase of NIS 24 million in credit loss expenses, explained by the growth in the allowance for credit losses on a group basis component and from an increase of NIS 46 million in operating and other expenses which resulted, mainly, from an increase in expenses for Salaries and related expenses, at a rate of 15.1%, which is explained by a one-time reduction of NIS 30 million that was recorded in this item in the corresponding period last year, as a result of signing a new wage agreement (see the 2015 Annual Report, p. 409).

For details regarding the strategic plan of MDB and the main projects to be carried out within the framework thereof, see the 2015 Annual Report (p. 81).

For details regarding lawsuits and motions for approval of the lawsuits as class action suits, in the matter of: a unilateral increase in the interest rate on credit taken within an approved credit facility and the charging of a commission with respect to operations of conversion and transfer of foreign currency, see Note 26 C, items 12.8, and 12.10, to the financial statements as of December 31, 2015, respectively (p. 282). For details regarding a lawsuit and the motion for its approval as a class action suit in the matter of the charging of commission regarding activity of conversion and transfer of foreign currency, see Note 10 item 4.4 to the condensed financial statements.

The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

## ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of June 30, 2016, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

### Israel Credit Cards – principal data

| Balance sheet items   | In NIS millions |                   | Change in % |
|---|-----------------|-------------------|-------------|
|   | June 30, 2016   | December 31, 2015 |             |
| Total assets  | 11,623          | 10,991            | 5.8         |
| Total equity  | 1,459           | 1,225             | 19.1        |
| Ratio of total capital to risk assets   | 16.4%           | 15.4%             |             |
| <b>Income statement items for the six months ended June 30</b>  |                 |                   |             |
|   | 2016            | 2015              |             |
| Total Income  | 915             | 606               | 51.0        |
| Net income attributed to the shareholders   | 238             | 74                | 221.6       |
| The contribution to the Bank's business results   | 152             | 47                | 223.4       |
| Return on equity  | 41.3%           | 13.3%             |             |
| <b>Income statement items disregarding gains on the sale of rights in Visa Europe and a provision in ICC<sup>(1)</sup> - for the six months ended June 30</b> |                 |                   |             |
|   | 2016            | 2015              |             |
| Net income attributed to the shareholders – disregarding the aforesaid  | 97              | 74                | 31.1        |
| The contribution to the Bank's business results – disregarding the aforesaid  | 62              | 47                | 31.9        |
| Return on equity – disregarding the aforesaid   | 15.9%           | 13.3%             |             |

Footnote:

(1) See Note 17 C to the condensed financial statements.

The business results of ICC for the first half of 2016 were mainly affected by the rise in income of NIS 309 million (51%), principally income from the realization of rights in VISA Europe (NIS 262 million) and income from credit card transactions (NIS 17 million; 3.8%) and net interest income (NIS 32 million; 23.2%). On the other hand, the company's expenses have grown (NIS 84 million, 17.4%), inter alia, as a result of the provision created in the reported period (see Note 17 C to the condensed financial statements).

For details regarding the strategic plan at the ICC and the measures for its integration, see the 2015 Annual Report (pp. 82-83).

For details regarding the police investigation and the seizure of documents and computer material of ICC, the transfer of the investigation file to the State Attorney Office and the notice by the State Attorney that it considers to indict ICC, see Note 17 b (2) to the condensed financial statements.

For details regarding the sale of Visa Europe, and the consideration received, as well as additional consideration expected to be received, see Note 17 C to the condensed financial statements.

For details regarding activity in the credit card field in Israel, see in the 2015 Annual Report (pp. 68-69, 447-456) in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and Note 17 to the condensed financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, with respect of the following matters: the marketing of gift cards, the granting of credit by means of the "Active" credit card, allegation of a restrictive arrangement in the field of immediate debit cards ("debit"), see Note 26 C to the financial statements as of December 31, 2015, items 12.5, 12.9, and 12.12 respectively (pp. 281-283) and Note 10 items 4.5, 4.6 and 4.7 to the condensed financial statements, respectively.

The annual and quarterly financial statements of ICC are available for review on the Internet website of the company.

## ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

Israel Discount Capital Market and Investments Ltd. ("DCMI"), a wholly owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds, investment banking in the field of securities distribution and in the underwriting and management of public offerings of securities (through a subsidiary).

### Israel Discount Capital Market and Investments – principal data

| Balance sheet items  | In NIS millions |                   | Change in % |
|--|-----------------|-------------------|-------------|
|  | June 30, 2016   | December 31, 2015 |             |
| Total assets   | 1,205.9         | 1,139.1           | 5.9         |
| Total equity   | 424.6           | 410.6             | 3.4         |
| <b>Income statement items for the six months ended June 30</b> |                 |                   |             |
|  | 2016            | 2015              |             |
| Net income attributed to the shareholders                      | 10.6            | 31.4              | (66.2)      |
| The contribution to the Bank's business results <sup>(1)</sup> | 13.8            | 43.1              | (68.0)      |

Footnote:

<sup>(1)</sup> Differences between net income and the contribution to the Bank's results is derived from differences in the implementation of generally accepted accounting principles

In the first half of 2016, DCMI participated, via its subsidiary, in 29 public offerings and 10 private offerings, amounting to NIS 12.2 billion. This, compared with 23 public offerings and 2 private placements (one on behalf of the Bank), amounting to NIS 11.2 billion and three brokerage transactions, in the corresponding period last year.

**The merger of Discount Underwriting and Issuing Ltd.** For details regarding an agreement for the merger of Clal Finance Underwriting Ltd. with and within Discount Underwriting and Issuing Ltd., see Note 10 item 7 to the condensed financial statements.

## CHAPTER "C" – RISKS REVIEW

### GENERAL DESCRIPTION OF THE RISKS AND MANNER OF MANAGEMENT THEREOF

#### RISK PROFILE OF THE DISCOUNT GROUP

For details regarding the risk profile of the Discount Group, see the 2015 Annual Report (pp. 84-85).

For details regarding Risk Management Principles, see the 2015 Annual Report (pp. 85-86).

#### DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management.

Qualitative and quantitative disclosure regarding the various risks is presented in the 2015 Annual Report (pp. 84-126) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2015 annual report together with the Report for the second quarter of 2016 (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## CREDIT RISKS

### CREDIT RISKS AND THE MANNER OF MANAGEMENT THEREOF

For details regarding Credit risks and the manner of management thereof, see the 2015 annual report (pp. 88-89).

### CREDIT QUALITY AND PROBLEMATIC CREDIT RISK

#### Problematic credit risk and non performing assets

|   | June 30, 2016        |                   |              | December 31, 2015    |                   |              |
|---|----------------------|-------------------|--------------|----------------------|-------------------|--------------|
|   | Credit Risk          |                   |              |                      |                   |              |
|   | Balance Sheet        | Off-Balance Sheet | Total        | Balance Sheet        | Off-Balance Sheet | Total        |
|   | In NIS millions      |                   |              |                      |                   |              |
| <b>Problematic Credit Risk<sup>(1)</sup>:</b>                               |                      |                   |              |                      |                   |              |
| Impaired credit risk  | <sup>(3)</sup> 2,864 | 72                | 2,936        | <sup>(3)</sup> 2,969 | 73                | 3,042        |
| Substandard credit risk <sup>(2)</sup>                                      | 411                  | 4                 | 415          | 521                  | 3                 | 524          |
| Special mention credit risk <sup>(2)</sup>                                  | <sup>(4)</sup> 2,350 | 466               | 2,816        | <sup>(4)</sup> 1,270 | 414               | 1,684        |
| <b>Total Problematic Credit Risk</b>  | <b>5,625</b>         | <b>542</b>        | <b>6,167</b> | <b>4,760</b>         | <b>490</b>        | <b>5,250</b> |
| Of which: Non impaired debts, in arrears for 90 days or more <sup>(2)</sup> | 407                  |                   |              | 412                  |                   |              |
| <b>Non-performing assets:</b>   |                      |                   |              |                      |                   |              |
| Impaired debts - non accruing interest income                               | 2,433                |                   |              | 2,517                |                   |              |
| Assets received in respect of credit settlement                             | 2                    |                   |              | 2                    |                   |              |
| <b>Total Non-Performing Assets</b>  | <b>2,435</b>         |                   |              | <b>2,519</b>         |                   |              |

Footnotes:

- (1) Impaired credit, substandard credit and credit under special mention risks.
- (2) Including in respect of housing loans for which an allowance based on the extent of arrears exists and in respect of housing loans that are in arrears for 90 days or more for which an allowance based on the extent of arrears does not exist.
- (3) Including non accruing corporate bonds in an amount of NIS 126 million (December 31, 2015- NIS 25 million).
- (4) Including cumulative corporate bonds in the amount of NIS 170 million, cumulative bank bonds in the amount of NIS 299 million, and cumulative foreign government bonds in the amount of NIS 207 million (as of December 31, 2015: cumulative corporate bonds of NIS 36 million, cumulative bank bonds of NIS 102 million, and cumulative foreign government bonds of NIS 27 million).

**Changes in balances of impaired debts**

|   | Three months ended<br>June 30 |              | Six months ended<br>June 30 |              |
|---|-------------------------------|--------------|-----------------------------|--------------|
|   | 2016                          | 2015         | 2016                        | 2015         |
| In NIS millions   |                               |              |                             |              |
| <b>Change in impaired debts<sup>(1)</sup>:</b>                    |                               |              |                             |              |
| Balance of impaired debts as of                                   | 2,804                         | 3,217        | 2,944                       | 2,776        |
| Debts classified as impaired during the period                    | 109                           | 308          | 207                         | 972          |
| Debts no longer classified as impaired                            | -                             | (1)          | (8)                         | (12)         |
| Accounting write-offs   | (38)                          | (123)        | (95)                        | (165)        |
| Collections   | (129)                         | (265)        | (314)                       | (543)        |
| Other   | (8)                           | (15)         | 4                           | 93           |
| <b>Balance of impaired debts as of</b>                            | <b>2,738</b>                  | <b>3,121</b> | <b>2,738</b>                | <b>3,121</b> |
| <b>Changes in allowances for credit losses on impaired debts:</b> |                               |              |                             |              |
| Balance of allowance for credit losses as of                      | 484                           | 379          | 463                         | 307          |
| Increase in allowances  | 15                            | 122          | 69                          | 251          |
| Collections and write-offs  | (24)                          | (35)         | (57)                        | (92)         |
| <b>Balance of allowance for credit losses as of</b>               | <b>475</b>                    | <b>466</b>   | <b>475</b>                  | <b>466</b>   |

Footnote:

(1) In respect of credit to the public only.

**Several financial ratios used to evaluate the quality of the credit portfolio**

|   | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 |
|---|------------------|------------------|----------------------|
| Ratio of balance of impaired credit to the public to balance of credit to the public  | 2.0%             | 2.6%             | 2.3%                 |
| Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public   | 0.3%             | 0.3%             | 0.3%                 |
| Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public  | 1.5%             | 1.6%             | 1.6%                 |
| Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public  | 76.4%            | 63.4%            | 69.7%                |
| Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public   | 2.6%             | 2.7%             | 2.5%                 |
| Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms)  | 0.16%            | 0.01%            | 0.15%                |
| Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)  | 0.1%             | 0.1%             | 0.1%                 |
| Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms)  | 8.3%             | 5.4%             | 7.4%                 |
| The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over | 66.5%            | 55.9%            | 61.1%                |

The increase in the rate of the balance of the allowance for credit losses in respect of credit to the public from the balance of problematic credit to the public stems mostly from the decrease in the balance of impaired credit, compared to 2015.

The increase in the rate of net write-offs in respect of credit to the public from the balance of the allowance for credit losses in respect of credit to the public stems mostly from the rise in net write-offs.

## Total credit risk classified by economic sectors on a consolidated basis

| June 30, 2016                                       |                       |   |                            |   |                                       |                            |          |                              |  |   |
|---|-----------------------|---|----------------------------|---|---------------------------------------|----------------------------|----------|------------------------------|--|---|
| Total Credit Risk <sup>(1)</sup>                    |                       |   |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                       |                            |          |                              |  |   |
|   | Total <sup>(9)</sup>  | Credit<br>Performance<br>Rating <sup>(10)</sup> | Problematic <sup>(5)</sup> | Total   | Of which:<br>Debts <sup>(2)(11)</sup> | Problematic <sup>(5)</sup> | Impaired | Credit Losses <sup>(4)</sup> |  |   |
|   |                       |   |                            |   |                                       |                            |          | Expenses                     | Net  | Balance of<br>Allowance<br>for Credit<br>Losses |
|   |                       |   |                            |   |                                       |                            |          |                              | Accounting   |   |
|   |                       |   |                            |   |                                       |                            |          |                              | Periodic<br>Credit<br>Loss<br>Recognized<br>during the<br>Period |   |
| in NIS millions                                     |                       |   |                            |   |                                       |                            |          |                              |  |   |
| Lending Activity in Israel                          |                       |   |                            |   |                                       |                            |          |                              |  |   |
| Agriculture   | 1,380                 | 1,327   | 13                         | 1,380   | 903                                   | 13                         | 5        | (5)                          | (1)  | 18  |
| Mining & Quarrying                                  | 668                   | 657   | 1                          | 666   | 345                                   | -                          | -        | -                            | -  | 1   |
| Industry  | 13,771                | 13,112  | 429                        | 13,667  | 8,999                                 | 431                        | 246      | (34)                         | (33)   | 224   |
| Construction and Real Estate - Construction         | <sup>(6)</sup> 19,623 | 18,983  | 403                        | <sup>(6)</sup> 19,611   | 8,528                                 | 404                        | 127      | (15)                         | (4)  | 146   |
| Construction and Real Estate - Real Estate Activity | 9,166                 | 8,387   | 605                        | 9,094   | 7,879                                 | 571                        | 297      | (38)                         | (19)   | 111   |
| Electricity and Water                               | 3,379                 | 3,288   | 82                         | 3,030   | 1,986                                 | 82                         | -        | 1                            | -  | 6   |
| Commerce  | 18,160                | 17,200  | 1,037                      | 17,999  | 14,652                                | 1,038                      | 514      | 32                           | 8  | 419   |
| Hotels, Hotel Services and Food                     | 1,887                 | 1,522   | 293                        | 1,869   | 1,555                                 | 293                        | 179      | 4                            | 3  | 19  |
| Transportation and Storage                          | 5,111                 | 4,800   | 93                         | 4,946   | 4,126                                 | 87                         | 50       | 4                            | (1)  | 72  |
| Communication and Computer Services                 | 2,993                 | 2,139   | 800                        | 2,925   | 2,203                                 | 800                        | 690      | 6                            | 1  | 182   |
| Financial Services                                  | 10,482                | 10,257  | 105                        | 9,196   | 7,546                                 | 104                        | 101      | 9                            | 1  | 103   |
| Other Business Services                             | 6,138                 | 5,686   | 115                        | 6,131   | 4,258                                 | 115                        | 74       | 5                            | 1  | 63  |
| Public and Community Services                       | 2,750                 | 2,653   | 24                         | 2,748   | 1,977                                 | 24                         | 4        | 8                            | 3  | 12  |
| Total Commercial                                    | 95,508                | 90,011  | 4,000                      | 93,262  | 64,957                                | 3,962                      | 2,287    | (23)                         | (41)   | 1,376   |
| Private Individuals - Housing Loans                 | 25,785                | 24,807  | 331                        | 25,785  | 23,360                                | 331                        | -        | 9                            | 15   | 169   |
| Private Individuals - Other                         | 47,754                | 45,500  | 362                        | 47,742  | 23,143                                | 362                        | 57       | 81                           | 57   | 417   |
| Total Public  | 169,047               | 160,318   | 4,693                      | 166,789   | 111,460                               | 4,655                      | 2,344    | 67                           | 31   | 1,962   |
| Banks in Israel                                     | 1,831                 | 1,831   | -                          | 1,038   | 657                                   | -                          | -        | (1)                          | -  | -   |
| Israeli Government                                  | 23,870                | 23,870  | -                          | 1,759   | 518                                   | -                          | -        | -                            | -  | -   |
| Total Lending Activity in Israel                    | 194,748               | 186,019   | 4,693                      | 169,586   | 112,635                               | 4,655                      | 2,344    | 66                           | 31   | 1,962   |

For footnotes see next page.



## Total credit risk classified by economic sectors on a consolidated basis (continued)

| June 30, 2016                    |  |  |  |   |  |  |  |  |  |  |
|----------------------------------|--|--|--|---|--|--|--|--|--|--|
| Total Credit Risk <sup>(1)</sup> |  |  |  | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |  |  |  |  |  |  |
|                                  |  |  |  | Credit Losses <sup>(4)</sup>  |  |  |  |  |  |  |
|                                  |  |  |  | Net   |  |  |  |  |  |  |
|                                  |  |  |  | Accounting  |  |  |  |  |  |  |
|                                  |  |  |  | Periodic Credit Loss Recognized during the Period   |  |  |  |  |  |  |
|                                  |  |  |  | Balance of Allowance for Credit Losses  |  |  |  |  |  |  |
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## Total credit risk classified by economic sectors on a consolidated basis (continued)

| June 30, 2015                                       |                        |   |                            |   |                                    |                            |                                  |                              |   |  |
|---|------------------------|---|----------------------------|---|------------------------------------|----------------------------|----------------------------------|------------------------------|---|--|
| Total Credit Risk <sup>(1)</sup>                    |                        |   |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                    |                            |                                  |                              |   |  |
|   | Total <sup>(9)</sup>   | Credit Performance Rating <sup>(10)</sup> | Problematic <sup>(5)</sup> | Total   | Of which: Debts <sup>(2)(11)</sup> | Problematic <sup>(5)</sup> | Impaired Expenses <sup>(9)</sup> | Credit Losses <sup>(4)</sup> |   |  |
|   |                        |   |                            |   |                                    |                            |                                  | Periodic Credit Loss         | Net Accounting                          | Balance of Allowance for Credit Losses |
|   |                        |   |                            |   |                                    |                            |                                  |                              | Write-Offs Recognized during the Period |  |
| in NIS millions                                     |                        |   |                            |   |                                    |                            |                                  |                              |   |  |
| Lending Activity in Israel                          |                        |   |                            |   |                                    |                            |                                  |                              |   |  |
| Agriculture   | 1,097                  | 1,054                                     | 21                         | 1,095   | 820                                | 21                         | 11                               | (5)                          | (2)                                     | 17                                     |
| Mining & Quarrying                                  | 531                    | 529                                       | 2                          | 531   | 329                                | 2                          | -                                | (1)                          | -                                       | -                                      |
| Industry  | 14,303                 | 13,537                                    | 423                        | 14,170  | 9,520                              | 422                        | 339                              | (59)                         | 9                                       | 252                                    |
| Construction and Real Estate - Construction         | <sup>(6)</sup> 14,229  | 13,573                                    | 395                        | <sup>(6)</sup> 14,201   | 5,444                              | 396                        | 166                              | (15)                         | 14                                      | 118                                    |
| Construction and Real Estate - Real Estate Activity | 11,389                 | 10,816                                    | 393                        | 11,251  | 9,022                              | 385                        | 325                              | (73)                         | (62)                                    | 132                                    |
| Electricity and Water                               | 3,469                  | 3,457                                     | 11                         | 2,773   | 1,858                              | 10                         | 9                                | 2                            | -                                       | 5                                      |
| Commerce  | 17,448                 | 16,219                                    | 1,007                      | 17,306  | 13,983                             | 1,007                      | 664                              | 104                          | 13                                      | 408                                    |
| Hotels, Hotel Services and Food                     | 1,823                  | 1,458                                     | 234                        | 1,805   | 1,517                              | 234                        | 223                              | (6)                          | 1                                       | 9                                      |
| Transportation and Storage                          | 3,459                  | 3,187                                     | 176                        | 3,396   | 2,694                              | 171                        | 127                              | (30)                         | (32)                                    | 53                                     |
| Communication and Computer Services                 | 2,859                  | 2,079                                     | 720                        | 2,676   | 1,534                              | 721                        | 640                              | 95                           | 14                                      | 112                                    |
| Financial Services                                  | 8,313                  | 8,063                                     | 239                        | 7,107   | 5,608                              | 239                        | 109                              | (25)                         | (17)                                    | 115                                    |
| Other Business Services                             | 5,991                  | 5,804                                     | 82                         | 5,977   | 4,004                              | 82                         | 49                               | 8                            | 3                                       | 61                                     |
| Public and Community Services                       | 2,370                  | 2,335                                     | 12                         | 2,369   | 1,727                              | 12                         | 6                                | (1)                          | -                                       | 8                                      |
| Total Commercial                                    | 87,281                 | 82,111                                    | 3,715                      | 84,657  | 58,060                             | 3,702                      | 2,668                            | (6)                          | (59)                                    | 1,290                                  |
| Private Individuals - Housing Loans                 | <sup>(12)</sup> 22,511 | <sup>(12)</sup> 21,948                    | 368                        | <sup>(12)</sup> 22,511  | <sup>(12)</sup> 20,666             | 368                        | -                                | 1                            | 92                                      | 171                                    |
| Private Individuals - Other                         | 43,823                 | 43,221                                    | 352                        | 43,778  | 21,401                             | 352                        | 77                               | 18                           | 26                                      | 387                                    |
| Total Public  | 153,615                | 147,280                                   | 4,435                      | 150,946   | 100,127                            | 4,422                      | 2,745                            | 13                           | 59                                      | 1,848                                  |
| Banks in Israel                                     | 1,624                  | 1,356                                     | -                          | 935   | 626                                | -                          | -                                | (1)                          | -                                       | 1                                      |
| Israeli Government                                  | 21,515                 | 21,512                                    | -                          | 1,699   | 428                                | -                          | -                                | -                            | -                                       | -                                      |
| Total Lending Activity in Israel                    | 176,754                | 170,148                                   | 4,435                      | 153,580   | 101,181                            | 4,422                      | 2,745                            | 12                           | 59                                      | 1,849                                  |

For footnotes see next page.

## Total credit risk classified by economic sectors on a consolidated basis (continued)

| June 30, 2015   |                      |   |                            |   |                                    |                            |          |  |  |  |
|---|----------------------|---|----------------------------|---|------------------------------------|----------------------------|----------|--|--|--|
| Total Credit Risk <sup>(1)</sup>  |                      |   |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                    |                            |          |  |  |  |
|   | Total <sup>(9)</sup> | Credit Performance Rating <sup>(10)</sup> | Problematic <sup>(5)</sup> | Total   | Of which: Debts <sup>(2)(11)</sup> | Problematic <sup>(5)</sup> | Impaired | Credit Losses <sup>(4)</sup>                 |  |  |
|   |                      |   |                            |   |                                    |                            |          | Periodic Credit Loss Expenses <sup>(9)</sup> | Net Accounting Write-Offs Recognized during the Period | Balance of Allowance for Credit Losses |
| in NIS millions   |                      |   |                            |   |                                    |                            |          |  |  |  |
| Lending Activity Outside of Israel  |                      |   |                            |   |                                    |                            |          |  |  |  |
| Agriculture   | 32                   | 32  | -                          | 32  | 32                                 | -                          | -        | (1)  | -  | -                                      |
| Mining & Quarrying  | 165                  | 131                                       | -                          | 111   | 6                                  | -                          | -        | -  | -  | -                                      |
| Industry  | 5,788                | 5,417                                     | 163                        | 5,669   | 3,056                              | 129                        | 20       | 8  | -  | 50                                     |
| Construction and Real Estate - Construction   | 328                  | 328                                       | 130                        | 328   | 280                                | 130                        | 130      | 5  | 14   | 2                                      |
| Construction and Real Estate - Real Estate Activity                                 | 8,416                | 8,108                                     | 170                        | 8,353   | 6,874                              | 170                        | 155      | (46)   | (15)   | 63                                     |
| Electricity and Water   | 361                  | 361                                       | -                          | 343   | 38                                 | -                          | -        | -  | -  | 1                                      |
| Commerce  | 6,633                | 6,457                                     | 179                        | 6,612   | 4,241                              | 179                        | -        | 25   | (3)  | 82                                     |
| Hotels, Hotel Services and Food   | 703                  | 703                                       | -                          | 703   | 650                                | -                          | -        | -  | -  | 5                                      |
| Transportation and Storage  | 928                  | 909                                       | 17                         | 916   | 643                                | 6                          | 6        | (1)  | -  | 8                                      |
| Communication and Computer Services   | 376                  | 336                                       | 27                         | 321   | 249                                | 27                         | 26       | 2  | -  | 25                                     |
| Financial Services  | 10,976               | 10,818                                    | 129                        | 2,586   | 1,755                              | 129                        | 90       | (4)  | (1)  | 26                                     |
| Of which: Federal agencies in the U.S. <sup>(7)</sup>                               | 7,894                | 7,894                                     | -                          | -   | -                                  | -                          | -        | -  | -  | -                                      |
| Other Business Services   | 2,134                | 1,831                                     | 14                         | 2,112   | 1,588                              | 14                         | -        | 4  | -  | 22                                     |
| Public and Community Services <sup>(8)</sup>  | 3,100                | 3,058                                     | -                          | 1,210   | 1,146                              | -                          | -        | 2  | -  | 14                                     |
| Total Commercial  | 39,940               | 38,489                                    | 829                        | 29,296  | 20,558                             | 784                        | 427      | (6)  | (5)  | 298                                    |
| Private Individuals - Housing Loans   | <sup>(12)</sup> 144  | <sup>(12)</sup> 159                       | 6                          | <sup>(12)</sup> 144   | <sup>(12)</sup> 135                | 7                          | -        | -  | -  | 1                                      |
| Private Individuals - Other   | 2,168                | 2,161                                     | 1                          | 2,163   | 1,437                              | 1                          | -        | (1)  | (1)  | 16                                     |
| Total Public  | 42,252               | 40,809                                    | 836                        | 31,603  | 22,130                             | 792                        | 427      | (7)  | (6)  | 315                                    |
| Banks Outside of Israel   | 8,874                | 8,799                                     | 176                        | 5,210   | 5,058                              | -                          | -        | (1)  | -  | 2                                      |
| Governments Outside of Israel   | 2,512                | 2,425                                     | 26                         | 18  | 18                                 | -                          | -        | -  | -  | -                                      |
| Total Lending Activity Outside of Israel  | 53,638               | 52,033                                    | 1,038                      | 36,831  | 27,206                             | 792                        | 427      | (8)  | (6)  | 317                                    |
| TOTAL   | 230,392              | 222,181                                   | 5,473                      | 190,411   | 128,387                            | 5,214                      | 3,172    | 4  | 53   | 2,166                                  |
| Excluding balances classified as assets and liabilities held for sale – see Note 18 | 4,786                | -   | -                          | 4,667   | 2,518                              | -                          | 1        |  |  |  |

## Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 128,387, 35,253, 607, 3,523, 62,622 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 406 millions.
- (7) Including mortgage backed securities in the amount of NIS 5,181 millions, issued by GNMA and in the amount of NIS 2,713 millions, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,044 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Babk.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 290 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) Reclassified due to changes in the data of a subsidiary company.

## Total credit risk classified by economic sectors on a consolidated basis (continued)

| December 31, 2015                                   |                       |   |                            |   |                                    |                            |                   |                              |  |                                      |
|---|-----------------------|---|----------------------------|---|------------------------------------|----------------------------|-------------------|------------------------------|--|--------------------------------------|
| Total Credit Risk <sup>(1)</sup>                    |                       |   |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                    |                            |                   |                              |  |                                      |
|   | Total <sup>(9)</sup>  | Credit Performance Rating <sup>(10)</sup> | Problematic <sup>(5)</sup> | Total   | Of which: Debts <sup>(2)(11)</sup> | Problematic <sup>(5)</sup> | Impaired Expenses | Credit Losses <sup>(4)</sup> |  |                                      |
|   |                       |   |                            |   |                                    |                            |                   | Periodic Credit Loss         | Net Accounting Write-Offs for the year | Balance of allowance for credit loss |
|   |                       |   |                            |   |                                    |                            |                   |                              |  |                                      |
| in NIS millions                                     |                       |   |                            |   |                                    |                            |                   |                              |  |                                      |
| Lending Activity in Israel                          |                       |   |                            |   |                                    |                            |                   |                              |  |                                      |
| Agriculture   | 1,450                 | 1,408                                     | 24                         | 1,450   | 928                                | 24                         | 9                 | 2                            | -                                      | 22                                   |
| Mining & Quarrying                                  | 565                   | 564                                       | 1                          | 565   | 442                                | -                          | -                 | 1                            | -                                      | 1                                    |
| Industry  | 14,476                | 13,793                                    | 225                        | 14,367  | 9,660                              | 225                        | 114               | (91)                         | 13                                     | 217                                  |
| Construction and Real Estate - Construction         | <sup>(6)</sup> 16,344 | 15,519                                    | 408                        | <sup>(6)</sup> 16,326   | 6,554                              | 409                        | 128               | 12                           | 23                                     | 130                                  |
| Construction and Real Estate - Real Estate Activity | 11,431                | 10,593                                    | 613                        | 11,338  | 9,288                              | 592                        | 279               | (45)                         | (62)                                   | 158                                  |
| Electricity and Water                               | 3,307                 | 3,214                                     | 89                         | 2,954   | 1,916                              | 89                         | 9                 | 3                            | -                                      | 5                                    |
| Commerce  | 17,008                | 16,061                                    | 746                        | 16,948  | 13,809                             | 745                        | 634               | 127                          | 48                                     | 399                                  |
| Hotels, Hotel Services and Food                     | 1,768                 | 1,443                                     | 200                        | 1,754   | 1,462                              | 200                        | 188               | 18                           | 16                                     | 18                                   |
| Transportation and Storage                          | 4,716                 | 4,438                                     | 219                        | 4,702   | 3,971                              | 214                        | 177               | (18)                         | (32)                                   | 66                                   |
| Communication and Computer Services                 | 2,933                 | 2,093                                     | 775                        | 2,862   | 1,564                              | 775                        | 704               | 181                          | 37                                     | 177                                  |
| Financial Services                                  | 8,249                 | 8,075                                     | 130                        | 7,213   | 5,723                              | 130                        | 127               | (67)                         | (39)                                   | 94                                   |
| Other Business Services                             | 6,079                 | 5,881                                     | 77                         | 6,074   | 4,250                              | 77                         | 43                | 5                            | 6                                      | 59                                   |
| Public and Community Services                       | 2,533                 | 2,485                                     | 11                         | 2,532   | 1,827                              | 12                         | 4                 | 1                            | 2                                      | 8                                    |
| Total Commercial                                    | 90,859                | 85,567                                    | 3,518                      | 89,085  | 61,394                             | 3,492                      | 2,416             | 129                          | 12                                     | 1,354                                |
| Private Individuals - Housing Loans                 | 23,336                | 22,684                                    | 355                        | 23,336  | 21,657                             | 355                        | -                 | 4                            | 92                                     | 175                                  |
| Private Individuals - Other                         | 46,172                | 45,534                                    | 358                        | 46,153  | 22,611                             | 358                        | 64                | 75                           | 75                                     | 393                                  |
| Total Public  | 160,367               | 153,785                                   | 4,231                      | 158,574   | 105,662                            | 4,205                      | 2,480             | 208                          | 179                                    | 1,922                                |
| Banks in Israel                                     | 1,643                 | 1,642                                     | -                          | 806   | 405                                | -                          | -                 | -                            | -                                      | 1                                    |
| Israeli Government                                  | 23,117                | 23,116                                    | -                          | 1,750   | 502                                | -                          | -                 | -                            | -                                      | -                                    |
| Total Lending Activity in Israel                    | 185,127               | 178,543                                   | 4,231                      | 161,130   | 106,569                            | 4,205                      | 2,480             | 208                          | 179                                    | 1,923                                |

For footnotes see next page.

## Total credit risk classified by economic sectors on a consolidated basis (continued)

| December 31, 2015   |                      |   |                            |   |                                       |                            |          |  |  |  |
|---|----------------------|---|----------------------------|---|---------------------------------------|----------------------------|----------|--|--|--|
| Total Credit Risk <sup>(1)</sup>  |                      |   |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                       |                            |          |  |  |  |
|   | Total <sup>(9)</sup> | Credit<br>Performance<br>Rating <sup>(10)</sup> | Problematic <sup>(5)</sup> | Total   | Of which:<br>Debts <sup>(2)(11)</sup> | Problematic <sup>(5)</sup> | Impaired | Credit Losses <sup>(4)</sup>           |  |  |
|   |                      |   |                            |   |                                       |                            |          | Periodic<br>Credit<br>Loss<br>Expenses | Net<br>Accounting<br>Write-Offs<br>for the<br>year | Balance<br>of<br>allowance<br>for credit<br>loss |
| in NIS millions   |                      |   |                            |   |                                       |                            |          |  |  |  |
| Lending Activity Outside of Israel  |                      |   |                            |   |                                       |                            |          |  |  |  |
| Agriculture   | 33                   | 33  | -                          | 33  | 33                                    | -                          | -        | (1)                                    | -  | -  |
| Mining & Quarrying  | 358                  | 322   | -                          | 123   | 6                                     | -                          | -        | -                                      | -  | -  |
| Industry  | 6,075                | 5,642   | 143                        | 5,597   | 2,989                                 | 109                        | 33       | 31                                     | 29   | 41   |
| Construction and Real Estate -<br>Construction  | 136                  | 136   | -                          | 136   | 78                                    |                            | -        | (7)                                    | 2  | 1  |
| Construction and Real Estate -<br>Real Estate Activity                                    | 9,711                | 9,246   | 345                        | 9,640   | 7,643                                 | 345                        | 282      | (37)                                   | (47)   | 106  |
| Electricity and Water   | 414                  | 414   | -                          | 370   | 31                                    | -                          | -        | -                                      | -  | -  |
| Commerce  | 7,541                | 7,349   | 192                        | 7,435   | 4,831                                 | 192                        | 33       | 5                                      | (7)  | 70   |
| Hotels, Hotel Services and<br>Food  | 717                  | 646   | 71                         | 717   | 663                                   | 71                         | 71       | 10                                     | -  | 17   |
| Transportation and Storage  | 1,072                | 1,044   | 18                         | 1,060   | 709                                   | 6                          | 6        | (3)                                    | -  | 7  |
| Communication and Computer<br>Services  | 867                  | 826   | 26                         | 414   | 359                                   | 26                         | 26       | -                                      | -  | 23   |
| Financial Services  | 11,532               | 11,396  | 89                         | 2,838   | 1,698                                 | 89                         | 88       | (12)                                   | (3)  | 24   |
| Of which: Federal agencies in<br>the U.S. <sup>(7)</sup>                                  | 8,183                | 8,183   | -                          | -   | -                                     | -                          | -        | -                                      | -  | -  |
| Other Business Services   | 631                  | 631   | -                          | 618   | 391                                   |                            | -        | (12)                                   | -  | 7  |
| Public and Community<br>Services <sup>(8)</sup>   | 4,863                | 4,828   | -                          | 2,966   | 2,643                                 | -                          | -        | 12                                     | -  | 25   |
| Total Commercial  | 43,950               | 42,513  | 884                        | 31,947  | 22,074                                | 838                        | 539      | (14)                                   | (26)   | 321  |
| Private Individuals - Housing<br>Loans  | 156                  | 143   | 5                          | 156   | 151                                   | 5                          | -        | 1                                      | -  | 1  |
| Private Individuals - Other   | 2,129                | 2,129   | 1                          | 2,126   | 1,381                                 | 1                          | -        | (6)                                    | (2)  | 14   |
| Total Public  | 46,235               | 44,785  | 890                        | 34,229  | 23,606                                | 844                        | 539      | (19)                                   | (28)   | 336  |
| Banks Outside of Israel   | 9,092                | 9,092   | 102                        | 5,469   | 5,349                                 | -                          | -        | (2)                                    | -  | 2  |
| Governments Outside of Israel   | 2,059                | 2,059   | 27                         | 14  | 14                                    | -                          | -        | -                                      | -  | -  |
| Total Lending Activity<br>Outside of Israel   | 57,386               | 55,936  | 1,019                      | 39,712  | 28,969                                | 844                        | 539      | (21)                                   | (28)   | 338  |
| TOTAL   | 242,513              | 234,479   | 5,250                      | 200,842   | 135,538                               | 5,049                      | 3,019    | 187                                    | 151  | 2,261  |
| Excluding balances classified<br>as assets and liabilities held for<br>sale – see Note 18 | 403                  | 403   | -                          | 400   | 400                                   | -                          | -        | -                                      | -  |  |

## Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 135,538, 37,632, 279, 3,208, 65,856 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 331 millions.
- (7) Including mortgage backed securities in the amount of NIS 5,672 millions, issued by GNMA and in the amount of NIS 2,511 millions, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,118 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 236 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

## EXPOSURE TO FOREIGN COUNTRIES – CONSOLIDATED

**A. INFORMATION REGARDING THE TOTAL EXPOSURE TO FOREIGN COUNTRIES AND TO COUNTRIES WHERE THE TOTAL EXPOSURE TO EACH COUNTRY AMOUNTS TO OVER 1% OF TOTAL CONSOLIDATED ASSETS OR OVER 20% OF CAPITAL, THE LOWER OF THE TWO<sup>(1)</sup>**

| June 30, 2016                              |                               |              |              |
|--|-------------------------------|--------------|--------------|
| Balance sheet exposure <sup>(2)</sup>      |                               |              |              |
| Across the border balance sheet exposure   |                               |              |              |
| The Country                                | To governments <sup>(4)</sup> | To banks     | To others    |
| In NIS millions                            |                               |              |              |
| United States                              | 251                           | 1,527        | 1,497        |
| United Kingdom                             | -                             | 2,715        | 596          |
| PIIGS <sup>(5)</sup>                       | -                             | 6            | 8            |
| Other                                      | 475                           | 3,068        | 2,162        |
| <b>Total exposure to foreign countries</b> | <b>726</b>                    | <b>7,316</b> | <b>4,263</b> |
| Of which - Total exposure to LDC countries | 165                           | 215          | 359          |

Notes:

- (1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
- (2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.
- (3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
- (4) Governments, official institutions and central banks.
- (5) Portugal, Ireland, Italy, Greece and Spain.

**B. INFORMATION REGARDING COUNTRIES THE AMOUNT OF EXPOSURE IN RESPECT OF EACH AMOUNTS TO BETWEEN 0.75% AND 1% OF TOTAL CONSOLIDATED ASSETS OR BETWEEN 15% AND 20% OF CAPITAL, WHICHEVER IS LOWER.**

As of June 30, 2016 the Bank had no such exposure.

**C. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY PROBLEMS, FOR THE PERIOD OF SIX MONTHS ENDED JUNE 30, 2016****1. Information regarding balance-sheet exposure to foreign countries**

As of June 30, 2016 the Bank had no such exposure.

**2. Information regarding balance-sheet exposures that have undergone restructuring**

As of June 30, 2016, the Bank had no such exposure.

| June 30, 2016  |   |   |                              |                                       |                |  |  |   |                   |
|--|---|---|------------------------------|---------------------------------------|----------------|--|--|---|-------------------|
| Balance sheet exposure <sup>(2)</sup>  |   |   |                              |                                       |                | Off-balance sheet exposure <sup>(2)(3)</sup> |  | Across the border balance sheet exposure <sup>(2)</sup> |                   |
| Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country |   |   |                              |                                       |                |  |  |   |                   |
| Balance sheet exposure before deduction of local liabilities   | Deduction in respect of local liabilities | Net balance sheet exposure after deduction of local liabilities | Total balance sheet exposure | Balance sheet problematic credit risk | Impaired debts | Total off-balance sheet exposure             | Of which off-balance sheet problematic credit risk | Due up to one year                                      | Due over one year |
| In NIS millions  |   |   |                              |                                       |                |  |  |   |                   |
| 33,036   | 21,902                                    | 11,134  | 14,409                       | 434                                   | 214            | 9,429  | 16   | 1,406   | 1,869             |
| -  | -   | -   | 3,311                        | 93                                    | 92             | 27   | -  | 2,435   | 876               |
| -  | -   | -   | 14                           | -                                     | -              | 11   | -  | 8   | 6                 |
| 158  | 158                                       | -   | 5,705                        | 57                                    | 54             | 359  | 3  | 3,057   | 2,648             |
| 33,194   | 22,060                                    | 11,134  | 23,439                       | 584                                   | 360            | 9,826  | 19   | 6,906   | 5,399             |
| -  | -   | -   | 739                          | 2                                     | -              | 173  | -  | 311   | 428               |

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Supplementary provision for doubtful debts".

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

## EXPOSURE TO FOREIGN COUNTRIES – CONSOLIDATED (CONTINUED)

**D. INFORMATION REGARDING THE TOTAL EXPOSURE TO FOREIGN COUNTRIES AND TO COUNTRIES WHERE THE TOTAL EXPOSURE TO EACH COUNTRY AMOUNTS TO OVER 1% OF TOTAL CONSOLIDATED ASSETS OR OVER 20% OF THE BANK'S CAPITAL, THE LOWER OF THE TWO<sup>(1)</sup>**

| June 30, 2015                              |                               |               |              |
|--|-------------------------------|---------------|--------------|
| Balance sheet exposure <sup>(2)</sup>      |                               |               |              |
| Across the border balance sheet exposure   |                               |               |              |
| The Country                                | To governments <sup>(4)</sup> | To banks      | To others    |
| In NIS millions                            |                               |               |              |
| United States                              | 2,782                         | 3,498         | 444          |
| United Kingdom                             | -                             | 2,420         | 246          |
| PIIGS <sup>(5)</sup>                       | -                             | 4             | 12           |
| Other                                      | 703                           | 4,398         | 2,497        |
| <b>Total exposure to foreign countries</b> | <b>3,485</b>                  | <b>10,320</b> | <b>3,199</b> |
| Of which - Total exposure to LDC countries | 245                           | 541           | 605          |
| December 31, 2015                          |                               |               |              |
| Balance sheet exposure <sup>(2)</sup>      |                               |               |              |
| Across the border balance sheet exposure   |                               |               |              |
| The Country                                | To governments <sup>(4)</sup> | To banks      | To others    |
| In NIS millions                            |                               |               |              |
| United States                              | 1,546                         | 1,740         | 1,127        |
| United Kingdom                             | -                             | 2,314         | 401          |
| PIIGS <sup>(5)</sup>                       | -                             | 9             | 16           |
| Other                                      | 302                           | 3,410         | 2,149        |
| <b>Total exposure to foreign countries</b> | <b>1,848</b>                  | <b>7,473</b>  | <b>3,693</b> |
| Of which - Total exposure to LDC countries | 108                           | 204           | 588          |

## Notes:

- (1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
- (2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.
- (3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
- (4) Governments, official institutions and central banks.
- (5) Portugal, Ireland, Italy, Greece and Spain.



| June 30, 2015  |   |   |                              |  |                |                                  |   |        |   |  |
|--|---|---|------------------------------|--|----------------|----------------------------------|---|--------|---|--|
| Balance sheet exposure <sup>(2)</sup>  |   |   |                              |  |                |                                  | Off-balance sheet exposure <sup>(2)(3)</sup>              |        | Across the border balance sheet exposure <sup>(2)</sup> |  |
| Balance sheet exposure to local resident customers of extensions of a banking corporation in a foreign country   |   |   |                              |  |                |                                  |   |        |   |  |
| Balance sheet exposure before deduction of local liabilities   | Deduction in respect of local liabilities | Net balance sheet exposure after deduction of local liabilities | Total balance sheet exposure | Balance sheet commercial criticized exposure | Impaired debts | Total off-balance sheet exposure | Of which off-balance sheet commercial criticized exposure |        |   |  |
| In NIS millions  |   |   |                              |  |                |                                  |   |        |   |  |
| 29,582   | 18,993                                    | 10,589  | 17,313                       | 451  | 95             | 8,379                            | -   | 6,488  | 236   |  |
| 305  | -   | 305   | 2,971                        | 153  | 145            | 21                               | -   | 1,977  | 689   |  |
| -  | -   | -   | 16                           | -  | -              | 17                               | -   | 7      | 9   |  |
| 2,275  | 2,247                                     | 28  | 7,626                        | 71   | 68             | 589                              | 2   | 4,419  | 3,179   |  |
| 32,162   | 21,240                                    | 10,922  | 27,926                       | 675  | 308            | 9,006                            | 2   | 12,891 | 4,113   |  |
| -  | -   | -   | 1,391                        | 3  | 2              | 140                              | -   | 711    | 680   |  |
| December 31, 2015  |   |   |                              |  |                |                                  |   |        |   |  |
| Balance sheet exposure <sup>(2)</sup>  |   |   |                              |  |                |                                  | Off-balance sheet exposure <sup>(2)(3)</sup>              |        | Across the border balance sheet exposure <sup>(2)</sup> |  |
| Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country |   |   |                              |  |                |                                  |   |        |   |  |
| Balance sheet exposure before deduction of local liabilities   | Deduction in respect of local liabilities | Net balance sheet exposure after deduction of local liabilities | Total balance sheet exposure | Balance sheet problematic credit risk        | Impaired debts | Total off-balance sheet exposure | Of which off-balance sheet problematic credit risk        |        |   |  |
| In NIS millions  |   |   |                              |  |                |                                  |   |        |   |  |
| 33,980   | 21,207                                    | 12,773  | 17,186                       | 477  | 244            | 9,420                            | 9   | 2,403  | 2,010   |  |
| -  | -   | -   | 2,715                        | 107  | 107            | 25                               | -   | 1,872  | 843   |  |
| -  | -   | -   | 25                           | 1  | -              | 9                                | -   | 12     | 13  |  |
| 278  | 271                                       | 7   | 5,868                        | 62   | 60             | 521                              | 4   | 2,988  | 2,873   |  |
| 34,258   | 21,478                                    | 12,780  | 25,794                       | 647  | 411            | 9,975                            | 13  | 7,275  | 5,739   |  |
| -  | -   | -   | 900                          | 2  | -              | 163                              | 2   | 477    | 423   |  |

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Supplementary provision for doubtful debts".

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

**B. INFORMATION REGARDING COUNTRIES THE OVERALL EXPOSURE IN RESPECT OF EACH AMOUNTS TO BETWEEN 0.75% AND 1% OF TOTAL CONSOLIDATED ASSETS OR BETWEEN 15% AND 20% OF CAPITAL, WHICHEVER IS LOWER.**

As of June 30, 2015 and December 31, 2015, the Bank had no such exposure.

**C. INFORMATION REGARDING THE BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY TROUBLES FOR THE PERIOD OF SIX MONTHS ENDED JUNE 30, 2015 AND FOR THE YEAR ENDED DECEMBER 31, 2015**

**1. Information regarding balance-sheet exposure to foreign countries**

As of June 30, 2015 and December 31, 2015, the Bank had no such exposure.

**2. Information regarding balance-sheet exposures that have undergone restructuring**

As of June 30, 2015 and December 31, 2015, the Bank had no such exposure.

**CREDIT EXPOSURE TO FOREIGN FINANCIAL INSTITUTIONS**

**General.** Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

**Developments in world markets.** Growth in the Eurozone slowed down in the second quarter amounting to 1.2%, and the data for the second quarter has been downgraded to 2%. The Slowdown in Spain was moderate, and it continues to grow at a fast rate of 2.8%, as compared with 3.2% in the previous quarters. On the other hand, the growth in France was at a standstill due to a slowdown in private consumption. Inflation in the Eurozone increased to an annualized rate of 0.2%, concurrently to stability in the core inflation at a level of 0.9%. The implications of Britain's decision to exit the European Union have not yet been reflected in the economic data of these countries. The growth in Britain in the second quarter was higher than expected amounting to an annualized rate of 2.4%. However, this item reflects the strength of British economy prior to the Brexit, and a significant slowdown is expected as from the third quarter, due to the ensuing uncertainty.

In accordance with the Bank's policy, exposure of the Group to financial institutions in the PIIGS (Portugal, Ireland, Italy, Greece and Spain) countries are at a negligible level. The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities. Moreover, the business divisions perform on an ongoing basis, a comprehensive examination with respect to customers who might be adversely affected by the crisis in Europe.

As seen from the data presented above regarding "Exposure to foreign countries", the direct exposure of the Group to the said country is not material and in a downward trend. However, it is not possible at this stage to evaluate the indirect effect, particularly if a global crisis develops as a result of the crisis in the said countries.

For details regarding the manner of managing credit risk applying to foreign financial institutions, see the 2015 Annual Report (pp. 100-102).

**Credit exposure to foreign financial institutions.** The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 91% of the exposure as of June 30, 2016, is to financial institutions rated "A-" rating or higher.

The states in respect of which the Bank has exposure as stated above as of June 30, 2016, include, inter-alia, the United States, Great Britain, Germany and France.

In the first half of 2016, losses in respect of impairment of securities in an amount of NIS 5 million were recognized in respect of exposure to foreign financial institutions.

**Details of present credit exposure to foreign financial institutions on a consolidated basis**

|   | Balance sheet<br>credit risk <sup>(2)(4)(5)</sup> | Present off<br>balance sheet<br>credit risk <sup>(3)(4)</sup> | Present<br>credit<br>exposure <sup>(4)</sup> |
|---|---|---|--|
| In NIS millions   |   |   |  |
| As at June 30, 2016   |   |   |  |
| Present credit exposure to foreign financial institutions <sup>(1)(6)</sup> |   |   |  |
| External credit rating <sup>(7)</sup>                                       |   |   |  |
| AAA to AA-  | 2,313   | 1,077   | 3,390  |
| A+ to A-  | 3,941   | 184   | 4,125  |
| BBB+ to BBB-  | 316   | 165   | 481  |
| BB+ to B-   | 53  | -   | 53   |
| Not rated <sup>(8)</sup>  | 63  | 101   | 164  |
| <b>Total present credit exposure to foreign financial institutions</b>      | <b>6,686</b>                                      | <b>1,527</b>  | <b>8,213</b>                                 |
| Balance of problematic bonds  | 402   | -   | 402  |
| As at December 31, 2015   |   |   |  |
| Present credit exposure to foreign financial institutions <sup>(1)(6)</sup> |   |   |  |
| External credit rating <sup>(7)</sup>                                       |   |   |  |
| AAA to AA-  | 2,349   | 608   | 2,957  |
| A+ to A-  | 3,897   | 102   | 3,999  |
| BBB+ to BBB-  | 260   | 14  | 274  |
| BB+ to B-   | 16  | 3   | 19   |
| Not rated <sup>(8)</sup>  | 70  | 96  | 166  |
| <b>Total present credit exposure to foreign financial institutions</b>      | <b>6,592</b>                                      | <b>823</b>  | <b>7,415</b>                                 |
| Balance of problematic bonds  | 102   | -   | 102  |

Notes:

- (1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
- (2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.
- (3) Mainly guarantees, including guarantees securing third party indebtedness.
- (4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
- (5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 11 to the condensed financial statements.
- (6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 5 to the condensed financial statements).
- (7) According to Moody's rating, and in its absence, the Fitch rating or S&P.
- (8) Most of the off-balance sheet credit risk which has no rating is in respect of guarantees by private Swiss banks and Swiss banks owned by banks in Western Europe that are rated A1 and above.

In addition to the exposure presented in the above table, as of June 30, 2016 and December 31, 2015 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 78 million and NIS 116 million, respectively.

## CREDIT RISK IN HOUSING LOANS

**General.** The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 57 million as of June 30, 2016 and NIS 54 million as of December 31, 2015).

**Developments in the field of housing loans.** A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The rise recorded in the volume of housing loans granted (including a rise in the average amount of loans) exceeded the economic growth rates and the rates of increase in the standard of living and in income of households. Therefore, certain concerns arise that these developments might adversely effect the quality of the housing credit portfolio and increase the exposure of the banking industry to credit risk.

For details regarding the measures taken by the Group, see 2015 Annual Report (p. 103).

The volume of the Group's housing loan portfolio as of June 30, 2016, amounted to NIS 23,758 million (December 31, 2015 - NIS 22,044 million).

### Certain risk characteristics of the Group's housing loans portfolio

|  | June 30,<br>2016 | December<br>31,<br>2015 |
|--|------------------|-------------------------|
|  | %                | %                       |
| Rate of housing loans financing over 75% of the value of the property  | 4.9              | 5.9                     |
| Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower                  | 13.8             | 15.0                    |
| Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio <sup>(1)</sup> | 60.7             | 61.1                    |

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

### Details regarding the amount of loans and average financing ratios

|  | For the six<br>months ended<br>June 30,<br>2016 | For the year<br>ended<br>December 31,<br>2015 |
|--|---|---|
| Average amount of loan (in NIS thousands)                | 698   | 694   |
| Average financing ratio for housing loans (in %)         | 56.2  | 54.9  |
| Average financing ratio for general purpose loans (in %) | 36.3  | 36.4  |

**Division of housing credit balances according to size of credit to borrowers**

|                                 | June 30,<br>2016   |                                 | December 31,<br>2015 |                                 |
|---------------------------------|--------------------|---------------------------------|----------------------|---------------------------------|
| Credit limit (in NIS thousands) | In NIS<br>millions | % of total<br>Housing<br>Credit | In NIS<br>millions   | % of total<br>Housing<br>Credit |
| Up to 1,200                     | 19,238             | 81.5                            | 17,970               | 82.2                            |
| Between 1,200 and 4,000         | 3,958              | 16.8                            | 3,496                | 16.0                            |
| Over 4,000                      | 393                | 1.7                             | 403                  | 1.8                             |
| <b>Total</b>                    | <b>23,589</b>      | <b>100.0</b>                    | <b>21,869</b>        | <b>100.0</b>                    |

Of which:

|  |     |     |
|--|-----|-----|
| Housing loans that were granted abroad   | 57  | 54  |
| Deduction of allowance for credit losses | 169 | 175 |
| Housing loans <sup>(1)</sup>             | 250 | 236 |

Footnote:

- (1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 250 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).

**Data regarding the volume of problematic debts in housing credit**

| As at             | Balance<br>of credit<br>to the<br>public <sup>(1)/(5)</sup> | Balance of<br>problematic<br>credit <sup>(1)</sup> | Balance of<br>allowances<br>for credit<br>losses <sup>(2)/(3)</sup> | Ratio of<br>problematic<br>debt |
|-------------------|---|--|---|---------------------------------|
|                   | In NIS millions   |  |   | Change in<br>%                  |
| June 30, 2016     | 23,758  | <sup>(4)</sup> 334                                 | 83  | 1.4                             |
| December 31, 2015 | 22,044  | <sup>(4)</sup> 360                                 | 95  | 1.6                             |

Footnotes:

- (1) Recorded amount.
- (2) As at June 30, 2016 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 80 million, and also an allowance over the extent of arrears in an amount of NIS 3 million (as of December 31, 2015: NIS 93 million and NIS 3 million, respectively).
- (3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which an allowance in accordance with the extent of arrears was not made, in amount of NIS 86 million as at June 30, 2016, (as at December 31, 2015: NIS 79 million).
- (4) Including an amount of NIS 33 million, defined as problematic credit, which is not in arrears (December 31, 2015: NIS 33 million).
- (5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 250 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).

**Distribution of housing credit granted, according to financing ratios and as a ratio of credit granted**

|  | For the six months ended June 30, |                                 |                    |                                 | For the year ended<br>December 31, 2015 |                                 |
|--|-----------------------------------|---------------------------------|--------------------|---------------------------------|---|---------------------------------|
|  | 2016                              |                                 | 2015               |                                 |   |                                 |
| Loan to value (LTV) ratio <sup>(1)</sup> | In NIS<br>millions                | % of total<br>Housing<br>Credit | In NIS<br>millions | % of total<br>Housing<br>Credit | In NIS<br>millions                      | % of total<br>Housing<br>Credit |
| Up to 45%                                | 716                               | 21.7                            | 547                | 26.3                            | 1,151                                   | 25.4                            |
| Between 45% and 60%                      | 1,168                             | 35.3                            | 809                | 38.8                            | 1,727                                   | 38.0                            |
| Over 60%                                 | 1,421                             | 43.0                            | 727                | 34.9                            | 1,679                                   | 36.6                            |
| <b>Total</b>                             | <b>3,305</b>                      | <b>100.0</b>                    | <b>2,083</b>       | <b>100.0</b>                    | <b>4,557</b>                            | <b>100.0</b>                    |

Footnote:

- (1) The loan to value (LTV) ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

An increase was recorded in the first half of 2016 in the volume of loans granted having a financing ratio of over 60% of the value of the property compared with the corresponding period last year. Notwithstanding the above, no change has been made in the financing rate of over 70%. It is noted that the component of in the volume of loans granted having a financing ratio of over 60% at the Bank is higher

than this component of operations at the banking industry in general, however, in the financing rate of over 70%, the Bank's share is similar to a part of the industry, and is even slightly lower. It is noted that the rate of borrowers whose ratio of repayment to their free income is in the range of 30%-40%, is lower than that of the industry.

#### Data regarding developments in housing credit balances according to linkage segments

|                         | Non-linked credit <sup>(2)</sup> |                           |                   | CPI linked credit <sup>(2)</sup> |                           |                   | Foreign currency linked credit <sup>(2)</sup> |                           |                   | Total Housing Credit <sup>(1)(2)</sup> |
|-------------------------|----------------------------------|---------------------------|-------------------|----------------------------------|---------------------------|-------------------|---|---------------------------|-------------------|--|
|                         | Fixed interest                   |                           | Variable interest | Fixed interest                   |                           | Variable interest | Fixed interest                                |                           | Variable interest |  |
|                         | In NIS millions                  | % of total Housing Credit |                   | In NIS millions                  | % of total Housing Credit |                   | In NIS millions                               | % of total Housing Credit |                   |  |
| As at June 30, 2016     | 4,796                            | 9,290                     | 59.7              | 4,205                            | 4,976                     | 38.9              | 1   | 321                       | 1.4               | 23,589                                 |
| As at December 31, 2015 | 3,692                            | 8,573                     | 56.0              | 4,263                            | 4,978                     | 42.3              | 1   | 362                       | 1.7               | 21,869                                 |

Footnotes:

- (1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 250 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).
- (2) The credit balance is after deduction of allowance for credit losses at an amount of NIS 169 million (December 31, 2015: NIS 175 million).

Most of the loans are granted for an initial period of up to 25 years.

The outstanding balance as of June 30, 2016 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 2,183 million, comprising 9.3% of the total housing loans portfolio (as of December 31, 2015, the balance amounted to NIS 1,716 million, comprising 7.8% of the total housing loans portfolio).

#### Data regarding the composition of loans granted for housing purposes, divided by the ratio of repayments to earnings

|   | For the six months ended June 30, |                           |                 |                           | For the year ended December 31, |                           |
|---|-----------------------------------|---------------------------|-----------------|---------------------------|---------------------------------|---------------------------|
|   | 2016                              |                           | 2015            |                           | 2015                            |                           |
|   | In NIS millions                   | % of total Housing Credit | In NIS millions | % of total Housing Credit | In NIS millions                 | % of total Housing Credit |
| Ratio of payment to income (PTI) <sup>(1)</sup> |                                   |                           |                 |                           |                                 |                           |
| Up to 40%                                       | 3,052                             | 99.8                      | 1,810           | 98.2                      | 4,042                           | 98.3                      |
| Over 40%  | 6                                 | 0.2                       | 34              | 1.8                       | 70                              | 1.7                       |
| <b>Total</b>                                    | <b>3,058</b>                      | <b>100.0</b>              | <b>1,844</b>    | <b>100.0</b>              | <b>4,112</b>                    | <b>100.0</b>              |

Footnote:

- (1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

On the background of regulatory instructions regarding restricting the refund ratio to 50% and increasing the allotment of capital with respect to loans of a refund ratio exceeding 40%, a significant decline has occurred in the rate of credit granted in 2015 at a refund ratio of over 40%, which comprised 1.7%. This trend also continued in the first half of 2016, and the aforesaid rate stood at 0.2%.

In this respect, it should be noted that the Bank operates a rating model, which takes into account additional parameters that supplement the repayment ability profile and which does not rely exclusively on the repayment ratio.

## CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

**Definition of leveraged finance.** Leveraged finance is defined as credit financing capital transactions of corporations and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

**Credit risk in respect of leveraged finance.** The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance for financing of capital transactions, which the Bank abides by.

Following are data regarding credit risk pertaining to leveraged finance as of June 30, 2016. Disclosure is focused on exposure leverage transactions, each of which exceeds NIS 75 million, similar to December 31, 2015.

**The Bank's exposure to leveraged finance according to economic sector of the acquired corporation**

| Sector                       | Balance sheet credit as of |                   |
|------------------------------|----------------------------|-------------------|
|                              | June 30, 2016              | December 31, 2015 |
|                              | In NIS millions            |                   |
| Industry                     | 341                        | 739               |
| Construction and real estate | 608                        | 917               |
| Commerce                     | 232                        | 133               |
| Financial services           | 91                         | 110               |
| <b>Total</b>                 | <b>1,272</b>               | <b>1,899</b>      |

Exposure to leveraged finance as of June 30, 2016 amounted to NIS 1,272 million, compared to NIS 1,899 million at the end of 2015, a decrease of 33.0%. The aforesaid decrease was due, primarily, to changes in the financial ratios, resulting in the credit no longer falling within the definition of leveraged finance.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.

The off-balance sheet exposure in respect of leverage finance transactions as of June 30, 2016, amounted to NIS 90 million (December 31, 2015 – NIS 412 million).

For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

## MARKET RISKS

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB New York, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

For qualitative disclosure regarding market risks, see the 2015 Annual Report (pp. 159-161).

## Exposure to changes in interest rates – Consolidated

| As at June 30, 2016   |                                   |  |   |  |   |
|---|-----------------------------------|--|---|--|---|
|   | On demand<br>or within<br>1 month | Over 1<br>month<br>and up to<br>3 months | Over 3<br>months<br>and up to<br>1 year | Over 1<br>year and<br>up to 3<br>years | Over 3<br>years and<br>up to 5<br>years |
| in NIS millions   |                                   |  |   |  |   |
| <b>Non linked Israeli currency</b>  |                                   |  |   |  |   |
| <b>Financial assets and amounts receivable in respect of derivative instruments</b>   |                                   |  |   |  |   |
| Financial assets <sup>(1)</sup>   | 93,079                            | 10,320                                   | 8,532                                   | 7,038                                  | 3,629                                   |
| Derivative financial instruments (except for options)                                 | 14,893                            | 21,169                                   | 17,628                                  | 13,510                                 | 3,954                                   |
| Options (in terms of base assets)   | 468                               | 284                                      | 536                                     | 301                                    | 179                                     |
| <b>Total fair value</b>   | <b>108,440</b>                    | <b>31,773</b>                            | <b>26,696</b>                           | <b>20,849</b>                          | <b>7,762</b>                            |
| <b>Financial liabilities and amounts payable in respect of derivative instruments</b> |                                   |  |   |  |   |
| Financial liabilities <sup>(1)</sup>  | 84,599                            | 8,857                                    | 8,302                                   | 7,599                                  | 1,462                                   |
| Derivative financial instruments (except for options)                                 | 20,194                            | 23,225                                   | 19,911                                  | 13,469                                 | 4,776                                   |
| Options (in terms of base assets)   | 659                               | 246                                      | 539                                     | 55                                     | 4                                       |
| Off-balance sheet financial instruments   | -                                 | -  | -                                       | -                                      | -                                       |
| <b>Total fair value</b>   | <b>105,452</b>                    | <b>32,328</b>                            | <b>28,752</b>                           | <b>21,123</b>                          | <b>6,242</b>                            |
| <b>Financial instruments, net</b>   |                                   |  |   |  |   |
| Exposure to changes in interest rates in the segment                                  | 2,988                             | (555)                                    | (2,056)                                 | (274)                                  | 1,520                                   |
| <b>Cumulative exposure in the segment</b>   | <b>2,988</b>                      | <b>2,433</b>                             | <b>377</b>                              | <b>103</b>                             | <b>1,623</b>                            |
| <b>CPI linked Israeli currency</b>  |                                   |  |   |  |   |
| <b>Financial assets and amounts receivable in respect of derivative instruments</b>   |                                   |  |   |  |   |
| Financial assets <sup>(1)</sup>   | 1,063                             | 673                                      | 2,839                                   | 6,269                                  | 4,924                                   |
| Derivative financial instruments (except for options)                                 | 18                                | 128                                      | 910                                     | 1,315                                  | 441                                     |
| Options (in terms of base assets)   | -                                 | 10                                       | 71                                      | 48                                     | 4                                       |
| <b>Total fair value</b>   | <b>1,081</b>                      | <b>811</b>                               | <b>3,820</b>                            | <b>7,632</b>                           | <b>5,369</b>                            |
| <b>Financial liabilities and amounts payable in respect of derivative instruments</b> |                                   |  |   |  |   |
| Financial liabilities <sup>(1)</sup>  | 324                               | 435                                      | 2,388                                   | 3,356                                  | 3,325                                   |
| Derivative financial instruments (except for options)                                 | 56                                | 252                                      | 1,902                                   | 3,339                                  | 905                                     |
| Options (in terms of base assets)   | 19                                | 13                                       | 108                                     | 253                                    | 155                                     |
| Off-balance sheet financial instruments   | -                                 | -  | -                                       | -                                      | -                                       |
| <b>Total fair value</b>   | <b>399</b>                        | <b>700</b>                               | <b>4,398</b>                            | <b>6,948</b>                           | <b>4,385</b>                            |
| <b>Financial instruments, net</b>   |                                   |  |   |  |   |
| Exposure to changes in interest rates in the segment                                  | 682                               | 111                                      | (578)                                   | 684                                    | 984                                     |
| <b>Cumulative exposure in the segment</b>   | <b>682</b>                        | <b>793</b>                               | <b>215</b>                              | <b>899</b>                             | <b>1,883</b>                            |

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.



| As at June 30, 2016             |                                  |               |                        |                  |                              |                                     | As at June 30, 2015 |                              |                                     | As at December 31, 2015 |                              |                                     |
|---------------------------------|----------------------------------|---------------|------------------------|------------------|------------------------------|-------------------------------------|---------------------|------------------------------|-------------------------------------|-------------------------|------------------------------|-------------------------------------|
| Over 5 years and up to 10 years | Over 10 years and up to 20 years | Over 20 years | No fixed maturity date | Total fair value | Internal rate of return In % | Effective average duration In years | Total fair value    | Internal rate of return In % | Effective average duration In years | Total fair value        | Internal rate of return In % | Effective average duration In years |
| in NIS millions                 |                                  |               |                        |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |
| 3,099                           | 1,199                            | 77            | 339                    | 127,312          | 2.84%                        | 0.66                                | 120,209             | 2.53%                        | 0.53                                | 123,419                 | 2.62%                        | 0.59                                |
| 5,337                           | -                                | -             | -                      | 76,491           |                              | 1.30                                | 81,608              |                              | 1.23                                | 78,194                  |                              | 1.17                                |
| 62                              | 1                                | -             | -                      | 1,831            |                              | 0.01                                | 2,019               |                              | 0.01                                | 1,300                   |                              | 0.01                                |
| <b>8,498</b>                    | <b>1,200</b>                     | <b>77</b>     | <b>339</b>             | <b>205,634</b>   |                              | <b>(2)0.89</b>                      | <b>203,836</b>      |                              | <b>(2)0.81</b>                      | <b>202,913</b>          |                              | <b>(2)0.81</b>                      |
| 598                             | 118                              | -             | -                      | 111,535          | 0.23%                        | 0.32                                | 103,060             | 0.22%                        | 0.25                                | 107,370                 | 0.24%                        | 0.25                                |
| 7,034                           | 84                               | -             | -                      | 88,693           |                              | 1.40                                | 95,141              |                              | 1.20                                | 89,437                  |                              | 1.15                                |
| 3                               | -                                | -             | -                      | 1,506            |                              | 0.01                                | 1,530               |                              | 0.01                                | 874                     |                              | 0.01                                |
| -                               | -                                | -             | -                      | -                |                              | -                                   | 9                   |                              | 0.01                                | -                       |                              | -                                   |
| <b>7,635</b>                    | <b>202</b>                       | <b>-</b>      | <b>-</b>               | <b>201,734</b>   |                              | <b>(2)0.79</b>                      | <b>199,740</b>      |                              | <b>(2)0.76</b>                      | <b>197,681</b>          |                              | <b>(2)0.66</b>                      |
| 863                             | 998                              | 77            | 339                    | 3,900            |                              |                                     | 4,096               |                              |                                     | 5,232                   |                              |                                     |
| <b>2,486</b>                    | <b>3,484</b>                     | <b>3,561</b>  | <b>3,900</b>           |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |
| 3,867                           | 845                              | 42            | 10                     | 20,532           | 1.65%                        | 3.56                                | 20,197              | 1.75%                        | 3.54                                | 19,834                  | 1.73%                        | 3.55                                |
| 1,942                           | 20                               | -             | -                      | 4,774            |                              | 4.29                                | 4,370               |                              | 1.72                                | 4,160                   |                              | 3.54                                |
| 3                               | -                                | -             | -                      | 136              |                              | 0.01                                | 57                  |                              | 0.01                                | 143                     |                              | 0.01                                |
| <b>5,812</b>                    | <b>865</b>                       | <b>42</b>     | <b>10</b>              | <b>25,442</b>    |                              | <b>(2)3.68</b>                      | <b>24,624</b>       |                              | <b>(2)3.21</b>                      | <b>24,137</b>           |                              | <b>(2)3.52</b>                      |
| 3,647                           | 317                              | -             | -                      | 13,792           | 0.46%                        | 3.45                                | 16,520              | 0.57%                        | 3.55                                | 15,204                  | 1.15%                        | 3.42                                |
| 915                             | -                                | -             | -                      | 7,369            |                              | 2.38                                | 5,401               |                              | 2.50                                | 6,259                   |                              | 2.28                                |
| 45                              | -                                | -             | -                      | 593              |                              | 0.01                                | 122                 |                              | 0.01                                | 446                     |                              | 0.01                                |
| -                               | -                                | -             | -                      | -                |                              | -                                   | 7                   |                              | 0.72                                | -                       |                              | -                                   |
| <b>4,607</b>                    | <b>317</b>                       | <b>-</b>      | <b>-</b>               | <b>21,754</b>    |                              | <b>(2)2.99</b>                      | <b>22,050</b>       |                              | <b>(2)3.27</b>                      | <b>21,909</b>           |                              | <b>(2)3.03</b>                      |
| 1,205                           | 548                              | 42            | 10                     | 3,688            |                              |                                     | 2,574               |                              |                                     | 2,228                   |                              |                                     |
| <b>3,088</b>                    | <b>3,636</b>                     | <b>3,678</b>  | <b>3,688</b>           |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |

## General notes:

- Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.
- The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 16 a.
- The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Full data of the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

## Exposure to changes in interest rates – Consolidated (continued)

| As at June 30, 2016   |                                   |  |   |  |   |
|---|-----------------------------------|--|---|--|---|
|   | On demand<br>or within<br>1 month | Over 1<br>month<br>and up to<br>3 months | Over 3<br>months<br>and up to<br>1 year | Over 1<br>year and<br>up to 3<br>years | Over 3<br>years and<br>up to 5<br>years |
| in NIS millions   |                                   |  |   |  |   |
| <b>Foreign currency<sup>(4)</sup></b>   |                                   |  |   |  |   |
| <b>Financial assets and amounts receivable in respect of derivative instruments</b>   |                                   |  |   |  |   |
| Financial assets <sup>(1)</sup>   | 26,513                            | 6,294                                    | 3,665                                   | 4,860                                  | 3,056                                   |
| Derivative financial instruments (except for options)                                 | 30,074                            | 31,500                                   | 31,211                                  | 8,390                                  | 2,458                                   |
| Options (in terms of base assets)   | 1,824                             | 4,312                                    | 1,234                                   | 8                                      | -                                       |
| <b>Total fair value</b>   | <b>58,411</b>                     | <b>42,106</b>                            | <b>36,110</b>                           | <b>13,258</b>                          | <b>5,514</b>                            |
| <b>Financial liabilities and amounts payable in respect of derivative instruments</b> |                                   |  |   |  |   |
| Financial liabilities <sup>(1)</sup>  | 41,460                            | 4,848                                    | 8,321                                   | 7,334                                  | 1,181                                   |
| Derivative financial instruments (except for options)                                 | 20,934                            | 30,205                                   | 25,791                                  | 5,460                                  | 3,310                                   |
| Options (in terms of base assets)   | 1,616                             | 4,348                                    | 1,202                                   | 43                                     | 20                                      |
| Off-balance sheet financial instruments   | -                                 | -  | -                                       | -                                      | -                                       |
| <b>Total fair value</b>   | <b>64,010</b>                     | <b>39,401</b>                            | <b>35,314</b>                           | <b>12,837</b>                          | <b>4,511</b>                            |
| <b>Financial instruments, net</b>   |                                   |  |   |  |   |
| Exposure to changes in interest rates in the segment                                  | (5,599)                           | 2,705                                    | 796                                     | 421                                    | 1,003                                   |
| <b>Cumulative exposure in the segment</b>   | <b>(5,599)</b>                    | <b>(2,894)</b>                           | <b>(2,098)</b>                          | <b>(1,677)</b>                         | <b>(674)</b>                            |
| <b>Total exposure to changes in interest rates</b>                                    |                                   |  |   |  |   |
| <b>Financial assets and amounts receivable in respect of derivative instruments</b>   |                                   |  |   |  |   |
| Financial assets <sup>(1), (3)</sup>  | 120,851                           | 17,287                                   | 15,036                                  | 18,167                                 | 11,609                                  |
| Derivative financial instruments (except for options)                                 | 44,985                            | 52,797                                   | 49,749                                  | 23,215                                 | 6,853                                   |
| Options (in terms of base assets)   | 2,292                             | 4,606                                    | 1,841                                   | 357                                    | 183                                     |
| <b>Total fair value</b>   | <b>168,128</b>                    | <b>74,690</b>                            | <b>66,626</b>                           | <b>41,739</b>                          | <b>18,645</b>                           |
| <b>Financial liabilities and amounts payable in respect of derivative instruments</b> |                                   |  |   |  |   |
| Financial liabilities <sup>(1)</sup>  | 126,579                           | 14,140                                   | 19,011                                  | 18,289                                 | 5,968                                   |
| Derivative financial instruments (except for options)                                 | 41,184                            | 53,682                                   | 47,604                                  | 22,268                                 | 8,991                                   |
| Options (in terms of base assets)   | 2,294                             | 4,607                                    | 1,849                                   | 351                                    | 179                                     |
| Off-balance sheet financial instruments   | -                                 | -  | 59                                      | -                                      | -                                       |
| <b>Total fair value</b>   | <b>170,057</b>                    | <b>72,429</b>                            | <b>68,523</b>                           | <b>40,908</b>                          | <b>15,138</b>                           |
| <b>Financial instruments, net</b>   |                                   |  |   |  |   |
| Exposure to changes in interest rates in the segment                                  | (1,929)                           | 2,261                                    | (1,897)                                 | 831                                    | 3,507                                   |
| <b>Cumulative exposure in the segment</b>   | <b>(1,929)</b>                    | <b>332</b>                               | <b>(1,565)</b>                          | <b>(734)</b>                           | <b>2,773</b>                            |

## Notes:

(1) Not including balance sheet balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

| As at June 30, 2016             |                                  |               |                        |                  |                              |                                     | As at June 30, 2015 |                              |                                     | As at December 31, 2015 |                              |                                     |
|---------------------------------|----------------------------------|---------------|------------------------|------------------|------------------------------|-------------------------------------|---------------------|------------------------------|-------------------------------------|-------------------------|------------------------------|-------------------------------------|
| Over 5 years and up to 10 years | Over 10 years and up to 20 years | Over 20 years | No fixed maturity date | Total fair value | Internal rate of return In % | Effective average duration In years | Total fair value    | Internal rate of return In % | Effective average duration In years | Total fair value        | Internal rate of return In % | Effective average duration In years |
| in NIS millions                 |                                  |               |                        |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |
| 6,235                           | 993                              | -             | 331                    | 51,947           | 2.06%                        | 1.69                                | 55,174              | 2.10%                        | 1.40                                | 54,044                  | 2.38%                        | 1.62                                |
| 5,098                           | 379                              | -             | -                      | 109,110          |                              | 0.87                                | 86,648              |                              | 0.81                                | 92,692                  |                              | 0.79                                |
| -                               | -                                | -             | -                      | 7,378            |                              | 0.01                                | 5,759               |                              | 0.01                                | 2,558                   |                              | 0.01                                |
| <b>11,333</b>                   | <b>1,372</b>                     | <b>-</b>      | <b>331</b>             | <b>168,435</b>   |                              | <b>(2)1.09</b>                      | <b>147,581</b>      |                              | <b>(2)1.00</b>                      | <b>149,294</b>          |                              | <b>(2)1.07</b>                      |
| 45                              | 18                               | -             | -                      | 63,207           | 0.61%                        | 0.40                                | 66,102              | 0.49%                        | 0.42                                | 64,359                  | 0.67%                        | 0.39                                |
| 9,044                           | 222                              | -             | -                      | 94,966           |                              | 1.24                                | 72,656              |                              | 1.01                                | 79,647                  |                              | 1.12                                |
| 13                              | -                                | -             | -                      | 7,242            |                              | 0.01                                | 6,143               |                              | 0.01                                | 2,675                   |                              | 0.01                                |
| -                               | -                                | -             | -                      | -                |                              | -                                   | 1                   |                              | 0.67                                | -                       |                              | -                                   |
| <b>9,102</b>                    | <b>240</b>                       | <b>-</b>      | <b>-</b>               | <b>165,415</b>   |                              | <b>(2)0.87</b>                      | <b>144,902</b>      |                              | <b>(2)0.70</b>                      | <b>146,681</b>          |                              | <b>(2)0.78</b>                      |
| 2,231                           | 1,132                            | -             | 331                    | 3,020            |                              |                                     | 2,679               |                              |                                     | 2,613                   |                              |                                     |
| <b>1,557</b>                    | <b>2,689</b>                     | <b>2,689</b>  | <b>3,020</b>           |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |
| 13,201                          | 3,037                            | 119           | 1,606                  | 200,913          | 2.52%                        | 1.22                                | 196,944             | 2.33%                        | 1.08                                | 198,659                 | 2.46%                        | 1.17                                |
| 12,377                          | 399                              | -             | -                      | 190,375          |                              | 1.13                                | 172,626             |                              | 1.03                                | 175,046                 |                              | 1.02                                |
| 65                              | 1                                | -             | -                      | 9,345            |                              | 0.01                                | 7,835               |                              | 0.01                                | 4,001                   |                              | 0.01                                |
| <b>25,643</b>                   | <b>3,437</b>                     | <b>119</b>    | <b>1,606</b>           | <b>400,633</b>   |                              | <b>(2)1.15</b>                      | <b>377,405</b>      |                              | <b>(2)1.04</b>                      | <b>377,706</b>          |                              | <b>(2)1.09</b>                      |
| 4,290                           | 453                              | -             | -                      | 188,730          | 0.38%                        | 0.57                                | 185,709             | 0.35%                        | 0.60                                | 186,992                 | 0.46%                        | 0.56                                |
| 16,993                          | 306                              | -             | -                      | 191,028          |                              | 1.36                                | 173,198             |                              | 1.16                                | 175,343                 |                              | 1.18                                |
| 61                              | -                                | -             | -                      | 9,341            |                              | 0.01                                | 7,795               |                              | 0.01                                | 3,995                   |                              | 0.01                                |
| -                               | -                                | -             | 18                     | 77               |                              | 0.08                                | 69                  |                              | 0.08                                | 66                      |                              | 0.08                                |
| <b>21,344</b>                   | <b>759</b>                       | <b>-</b>      | <b>18</b>              | <b>389,176</b>   |                              | <b>(2)0.94</b>                      | <b>366,771</b>      |                              | <b>(2)0.85</b>                      | <b>366,396</b>          |                              | <b>(2)0.85</b>                      |
| 4,299                           | 2,678                            | 119           | 1,588                  | 11,457           |                              |                                     | 10,634              |                              |                                     | 11,310                  |                              |                                     |
| <b>7,072</b>                    | <b>9,750</b>                     | <b>9,869</b>  | <b>11,457</b>          |                  |                              |                                     |                     |                              |                                     |                         |                              |                                     |

## General notes:

- Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.
- The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 16 a.
- The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Full data of the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

For additional quantitative and qualitative details about the interest risks, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## SHARE PRICE RISK

### SHARES POSITION IN THE BANKING BOOK

#### Details regarding investments in shares

|   | June 30         | December 31  |              |
|---|-----------------|--------------|--------------|
|   | 2016            | 2015         | 2015         |
|   | in NIS millions |              |              |
| <b>Investments in shares of affiliated companies<sup>(1)</sup>:</b> |                 |              |              |
| Non marketable shares   | 135             | 141          | 144          |
| <b>Shares in the available-for-sale portfolio:</b>                  |                 |              |              |
| Marketable shares   | 77              | 558          | 493          |
| Non marketable shares   | 842             | 771          | 803          |
| Total shares in the available for sale portfolio                    | 919             | 1,329        | 1,296        |
| <b>Total investment in shares</b>                                   | <b>1,054</b>    | <b>1,470</b> | <b>1,440</b> |

Footnote:

(1) For additional information see Note 15 to the Financial Statements as of December 31, 2015.

#### Capital requirement regarding share position

|   | June 30         | December 31 |            |
|---|-----------------|-------------|------------|
|   | 2016            | 2015        | 2015       |
|   | in NIS millions |             |            |
| In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds <sup>(2)</sup> | 167             | 142         | 143        |
| In respect of investments in other shares <sup>(3)</sup>  | 55              | 113         | 102        |
| <b>Total capital requirement regarding share position<sup>(1)</sup></b>   | <b>222</b>      | <b>255</b>  | <b>245</b> |

Footnotes:

(1) The capital requirement was computed according to 12.6% (June 30, 2015: 12.5%, December 31, 2015: 12.6%) and does not include capital requirement in respect of investment in shares in the trading portfolio.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100% and 250%.

For additional quantitative and qualitative details about share price risk, see the 2015 annual report (pp. 114-115) and in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## LIQUIDITY AND FINANCING RISKS

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. Whereas this is a situation of uncertainty in which a liquidity risk always exists, the Bank has determined maximum exposure limitations as regards the liquidity risk. In addition, the regulatory coverage ratio is being examined and managed on a current basis, as required by Proper Conduct of Banking Business Directive No. 221.

No deviation from the said restrictions was recorded in the second quarter of 2016.

For further details regarding the management of the Liquidity and financing risks, see the 2015 Annual Report (pp. 115-119).

## LIQUIDITY COVERAGE RATIO

As of the second quarter of 2016, the average liquidity coverage ratio (LCR) of the Discount Group stood at 133.9%, higher than the minimum requirements according to the new instructions.

It is noted, that the instruction in question is a complex one, which as regards no few issues required interpretations as to the intention of the instruction and the implementation derived there from. In arriving at these interpretations, the Bank has adopted a guarded approach, to the extent possible. Notwithstanding this, it is possible that in continuation, in view of the experience gained, or in view of clarifications issued by the Supervisor of Banks, it would be required to change the adopted treatment.

For additional details, see Note 9 to the condensed financial statements.

## LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

### GENERAL

A growth of 9% was recorded during the first half of 2016 in the money supply M1 (cash held by the public and shekel current account deposits), with a growth of a rate of approx. 10% in current account deposits and of 4% in the cash balances. The growth in the money supply M2 (M1 together with non-linked deposits of up to one year) amounted to 6%.

It is noted, that in the corresponding period in 2015, the M1 and M2 money supply grew by 24% and 5%, respectively, with a 30% growth in current account deposits. This steep rise in such deposits last year occurred concurrently with the lowering of the Bank of Israel interest rate to 0.1%, while in the first half of 2016, the interest rate remained stable and deposits, which are at a very high level, increased by a moderate rate.

A growth of NIS 8.5 billion in the monetary base was recorded in the first half of 2016, compared to NIS 4.7 billion in the corresponding period last year. The growth in the monetary base during the first half of 2016 occurred mostly in the second quarter of the year. The significant growth in the monetary base stemmed from the supply of cash by the Bank of Israel to the tune of NIS 27 billion, countered by an absorption by the Government of NIS 18 billion. The supply of liquidity by the Bank of Israel was conducted through foreign currency exchange and open market operations (excess redemption of short-term loans (MAKAM) over new issues) and by reducing the tenders for shekel deposits.

### Sources for the change in the monetary base

|                               | Change in the first half of the year |       | change in % |
|-------------------------------|--------------------------------------|-------|-------------|
|                               | 2016                                 | 2015  |             |
|                               | In NIS billion                       |       |             |
| Operations on the Open Market | 7.1                                  | 7.1   | -           |
| The Shekel deposits tender    | 6.0                                  | (2.7) | -           |
| Foreign currency conversion   | 13.1                                 | 17.8  | (26.4)      |
| Government activity           | (17.9)                               | 18.1  |             |

### THE BANK

**Transferability of liquidity within the Group.** The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty.

During the first half of 2016, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus. The following trends were observed during the period:

- An increase of NIS 2.4 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 2.8%. An increase in retail deposits of NIS 4.3 billion. On the other hand, a decrease in corporate deposits of NIS 0.9 billion. Furthermore, redemption of debt notes issued by Discount Manpikim in the amount of NIS 1 billion, which had been deposited with the Bank;

- Transition of liquidity from deposits to current accounts in an amount of NIS 1.9 billion in the shekel segment, among other things, due to the low interest environment;
- Eliminating the impact of the exchange rate, foreign currency deposits increased by an amount of US\$170 million. An increase of US\$55 million in retail deposits and approx. US\$115 million in corporate deposits. Foreign currency deposits including the effect of the exchange rate rose by NIS 127 million.

#### Deposits from the public

|  | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 | Change compared    |              |                    |            |
|--|------------------|------------------|----------------------|--------------------|--------------|--------------------|------------|
|  |                  |                  |                      | June 30, 2015      |              | December 31, 2015  |            |
|  |                  |                  |                      | In NIS<br>millions | in %         | In NIS<br>millions | in %       |
| Non-linked shekels   | 81,188           | 74,221           | 77,564               | 6,967              | 9.4          | 3,624              | 4.7        |
| CPI-linked shekels   | 6,032            | 7,947            | 7,208                | (1,915)            | (24.1)       | (1,176)            | (16.3)     |
| Foreign currency and foreign currency linked shekels                           | 28,191           | 27,664           | 28,007               | 527                | 1.9          | 184                | 0.7        |
| <b>Total</b>   | <b>115,411</b>   | <b>109,832</b>   | <b>112,779</b>       | <b>5,579</b>       | <b>5.1</b>   | <b>2,632</b>       | <b>2.3</b> |
| <b>Foreign currency and foreign currency linked shekels - In US\$ millions</b> | <b>7,330</b>     | <b>7,340</b>     | <b>7,178</b>         | <b>(10)</b>        | <b>(0.1)</b> | <b>152</b>         | <b>2.1</b> |

#### Deposits from Banks

|  | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 | Change compared    |            |                    |             |
|--|------------------|------------------|----------------------|--------------------|------------|--------------------|-------------|
|  |                  |                  |                      | June 30, 2015      |            | December 31, 2015  |             |
|  |                  |                  |                      | In NIS<br>millions | in %       | In NIS<br>millions | in %        |
| Non-linked shekels                                   | 1,091            | 1,295            | 902                  | (204)              | (15.7)     | 189                | 21.0        |
| CPI-linked shekels                                   | 293              | 73               | 61                   | 220                | 301.7      | 232                | 380.7       |
| Foreign currency and foreign currency linked shekels | 647              | 560              | 710                  | 87                 | 15.6       | (63)               | (8.9)       |
| <b>Total</b>   | <b>2,031</b>     | <b>1,928</b>     | <b>1,673</b>         | <b>103</b>         | <b>5.3</b> | <b>358</b>         | <b>21.4</b> |

For additional details regarding liquidity risks and the management thereof, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd., and also Note 15 regarding assets and liabilities according to linkage terms and maturity periods.

For additional details regarding financial risk, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## OPERATIONAL RISKS

For details regarding operational risks and the manner of management thereof, including in the matter of business continuity, see the 2015 Annual Report (p. 119) and the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

## OTHER RISKS

For additional details regarding other risks, see 2015 Annual Report (including: Information technology risks - p. 120; Strategic risk - p. 120; Reputation risk - p. 120; Environmental risks - p. 121; Legal and regulatory risks - p. 121; for details regarding Risk Factors Table - pp. 122-126).

## COMPLIANCE RISKS

### PRINCIPAL DEVELOPMENTS IN 2016

The Amendment of Proper Conduct of Banking Business Directive No. 308, in the matter of "compliance and the compliance function in a banking corporation" (hereinafter – "the Directive") took effect on January 1, 2016. The Amendment is based upon the guidelines of the Basel Committee, relevant international sources and instructions relating to risk management and corporate governance.

The change in the Directive contains several material changes in the compliance risk management concept of the compliance functions at the Bank and at the group. These changes include an instruction which expands the manner in which the Bank is required to monitor the overall regulations applying to it, through a risk based approach.

The said change, as well as the change in the compliance risk management policy, in the light of which, alongside the compliance risk being one of the banking core risks, require active action and preparations by the Bank for the integration of the changes. Within the framework of that stated above, the compliance function has taken action for the integration and implementation of the Directive, including: the formation of the functional administrative and organizational structure concept designed to support the compliance risk management structure within its wider meaning, in a risk based format; a new Group policy document has been formed for compliance risk management, which was delivered to the material subsidiaries for implementation, *mutatis mutandis*; a charter has been formed and published regularizing the status, independence and duties of the compliance function; a new methodology has been formed for compliance risk management with a risk based approach; etc. Furthermore, the compliance function and the Chief Compliance Officer heading it, monitor on an ongoing basis, the preparations made by the relevant subsidiaries for the implementation of the Directive.

For further details regarding compliance risks, see the 2015 Annual Report (pp. 121-122).

### PROHIBITION OF MONEY LAUNDERING AND TERROR FINANCING

**Discount Group's activities with banks acting in the Palestinian Authority.** Within the framework of correspondent bank relationships between the Discount Group and the banks operating within the Palestinian Authority ("Palestinian banks"), representative services are provided to the Palestinian banks at the interbank shekel clearinghouse, as well as other services.

Over the years, in light of concern regarding exposure to risks involved in such activity, the topic of the activity with the Palestinian banks has been discussed on a number of occasions at the board of directors of both the Bank and MDB, with the Discount Group's position having been that, in view of the risks pertaining to such activity, the activity with these banks should be discontinued.

In light of this, the Bank has announced, on the various occasions, its desire to discontinue its engagements with the Palestinian banks. However, its requests to discontinue the engagement with the Palestinian banks has not been accepted and, on a number of occasions, the Bank of Israel has clarified that the aforesaid engagement is essential for the State of Israel and that the Bank of Israel attaches considerable importance to the continued provision of this service.

In November 2006, a specific permit was issued to the banks representing the Palestinian banks at the clearinghouse, which exempts these banks from certain examination obligations. This permit is intended to provide an answer to the concerns of the representative banks and to provide them with certain protection against the risks involved in this activity.

In January 2009, all banking activity with the Gaza Strip was discontinued, including the clearing of checks, transfers in Israeli currency and in foreign currency, the clearing of electronic receivables and clearing through the Banking Clearing Center carried out within the

framework of the banks' clearinghouse. MDB followed the same course of action. Furthermore, the Bank discontinued its activities with banks in Judea and Samaria, apart from the clearing of checks, the transfer of funds to Israel through the Banking Clearing Center and the transfer of foreign currency to Israel.

On May 1, 2016, the Bank applied to the Supervisor of Banks and to the Director General of the Ministry of Finance and again made a request to discontinue providing services to Palestinian banks, including discontinuing representing them at the interbank shekel clearinghouse. Alternatively, the Bank sought to receive an appropriate solution to the risks involved in the aforesaid activity.

To date, the Bank has not received a reply to its approach.

## CROSS-BORDER RISKS

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### **LEGISLATION AMENDMENTS REGARDING THE IMPLEMENTATION OF THE INTER-STATE FATCA AGREEMENT BETWEEN ISRAEL AND THE UNITED STATES**

On July 14, 2016, the Income Tax Ordinance Amendment Act (No. 227), 2016, was published, as well as an indirect amendment of the Prohibition of Money Laundering Act, 2000 (No. 16).

The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. The Income Tax Ordinance Amendment Act became effective on August 2, 2016, upon the publication of the regulations required under it.

The Act and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. The Act prohibits use of the said information by the Tax Authority for the purpose of enforcing the tax laws, otherwise than the delivery of which to foreign tax authorities under provisions of the agreement. In addition, the Acts determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof. The sanctions take effect six months after the effective date of the Act and Regulations under it.

The indirect amendment of the Prohibition of Money Laundering Act, amends the definition of "controlling interest" in accordance with the global standards in this respect. The amendment takes effect six months after the effective date of the Act and Regulations under it.

The Bank is continuing with the FATCA implementation, incorporating the requirements arising from the legislation at the same time.

For details regarding the closing down of foreign extensions, see above "International operations segment".

For further details regarding cross-border risks, see the 2015 Annual Report (p. 120).



## CHAPTER "D" - ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROL AND PROCEDURES

### CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2015, pp. 158-190) and according to instructions and guidelines of the Supervisor of Banks. The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.

Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.

Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.

The Bank's Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its knowledge and professional judgment.

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2015 Annual Report (pp. 127-136).

### MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

**The credit risk.** The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in the first half of 2016, to a gain of NIS 1 million, similar to the corresponding period in 2015.

#### Details regarding the adjustments made to assets and liabilities in respect of derivative instruments

|   | June 30, 2016   | December 31, 2015 |
|---|-----------------|-------------------|
|   | in NIS millions |                   |
| Assets in respect of derivative instruments   | 3,833           | 3,236             |
| Adjustment in respect of credit risk regarding assets relating to derivative instruments      | (7)             | (10)              |
| Liabilities in respect of derivative instruments  | 4,466           | 3,508             |
| Adjustment in respect of credit risk regarding liabilities relating to derivative instruments | (4)             | (6)               |

For additional details regarding the measurement of financial instruments according to their fair value, see the 2015 Annual Report (pp. 131-133).

## EMPLOYEE RIGHTS

For details regarding increasing the special fund in respect of exceptional retirement cases, see Note 1 D to the condensed financial statements.

**Updated actuarial opinion.** The Bank has ordered an updated actuarial assessment as of June 30, 2016.

**Presenting the actuary's opinion for perusal.** The opinion of the Actuary<sup>1</sup> is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the 2016 Second Quarter Report (this Report).

## ALLOWANCES FOR CREDIT LOSSES

In accordance with the Reporting to the Public Directives in the matter of: "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses" (hereinafter: "the Directive"), banking corporations are required to form an accounting policy for the implementation of the provisions of the Directive, which, among other things, include reference to the allowance for credit losses on a specific basis and for the allowance for credit losses on a group basis. MDB had formed an accounting policy in this matter, as required, which determined a quantitative minimum amount of NIS 50 thousand. Namely, debts in amounts exceeding this minimum amount were examined by MDB on a specific basis.

The said quantitative minimum amount served MDB in the implementation of its accounting policy, since the date of effect of the Directive (January 1, 2011) and until December 31, 2015.

Following the experience gained in the implementation of the instruction, and following performed examinations, Management of MDB has decided to change its accounting policy in this matter, as from January 1, 2016, and increase the quantitative minimum amount from NIS 50 thousand to NIS 500 thousand. For additional details, see Note 1 G to the condensed financial statements.

**A change in the computation of the group allowance.** For details regarding the change applied as from April 1, 2016, in accordance with guidelines of the Supervisor of Banks, see Note 1 E 4 to the condensed financial statements.

## CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

The Bank's President & CEO and its Chief Accounting Officer have evaluated in conjunction with the Bank's Management, the efficiency of the controls and procedures relating to disclosure at the Bank as of the end of the reporting period. Based on this evaluation, the President & CEO and Chief Accounting Officer have reached the conclusion that as of the end this period, the controls and procedures relating to disclosure at the Bank operate efficiently in order to record, process, summarize and report the information that the Bank is required to disclose in its quarterly report, in accordance with the directives of the Supervisor of Banks in the matter of reporting to the public and at such date indicated therein.

### CHANGES IN INTERNAL CONTROL

During the second quarter of 2016, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting.

Dr. Yossi Bachar  
Chairman of  
the Board of Directors

Lilach Asher-Topilsky  
President &  
Chief Executive Officer

August 15, 2016

<sup>1</sup> The English translation of the Opinion is available for perusal at the Bank's website.

# INTERNAL CONTROL OVER FINANCIAL REPORTING

|    |                                  |
|----|----------------------------------|
| 81 | President & CEO's certifications |
| 82 | Chief Accountant's certification |



**CERTIFICATION**

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2016 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
  - (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
  - (c) 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 such evaluation;
  - (d) 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 other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design 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 or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

August 15, 2016

Ms. Lilach Asher-Topilsky  
President & Chief Executive Officer

**CERTIFICATION**

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 2016 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
  - (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
  - (c) 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 such evaluation;
  - (d) 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 other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design 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 or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

August 15, 2016

Joseph Beressi  
Senior Executive Vice President  
Chief Accountant

# CONDENSED FINANCIAL STATEMENTS

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| 86 | Condensed Statement of Income - Consolidated   |
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## **REVIEW REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD.**

### **INTRODUCTION**

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at June 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and six months periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for this interim period in accordance with Israeli GAAP regarding financial reporting for this interim period and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

### **SCOPE OF REVIEW**

We have 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 guidelines and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

### **EMPHASIS OF A MATTER**

Without qualifying our above conclusion, we call attention to the Note 10 items 4.6 and 5 concerning motion to approve certain lawsuits as class action suits and with regard to other claims against the Bank and investee companies and to that stated in Note 17 b (2) with respect to the notice given by the State Attorney Office, according to which the State Attorney is considering the filing of an indictment against ICC. In accordance with that stated in the Note, at this early stage, difficulty exists in assessing the results of the measures that would be adopted, if at all, and their implications on ICC.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
August 15, 2016

Ziv Haft  
Certified Public Accountants (Isr.)

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

|  | Notes | Unaudited                           |                                   | Audited                         |              |
|--|-------|-------------------------------------|-----------------------------------|---------------------------------|--------------|
|  |       | For the three months ended June 30, | For the six months ended June 30, | For the year ended December 31, |              |
|  |       | 2016                                | 2015                              | 2016                            | 2015         |
| in NIS millions  |       |                                     |                                   |                                 |              |
| Interest income  |       | 1,494                               | 1,550                             | 2,720                           | 2,632        |
| Interest expenses  |       | 339                                 | 455                               | 508                             | 517          |
| Interest income, net   | 2     | 1,155                               | 1,095                             | 2,212                           | 2,115        |
| Credit loss expenses (reversal expenses)                                 | 6     | 58                                  | (28)                              | 104                             | 4            |
| <b>Net interest income after credit loss expenses</b>                    |       | <b>1,097</b>                        | <b>1,123</b>                      | <b>2,108</b>                    | <b>2,111</b> |
| <b>Non-interest Income</b>   |       |                                     |                                   |                                 |              |
| Non-interest financing income  | 3     | 428                                 | 102                               | 524                             | 287          |
| Commissions  |       | 633                                 | 655                               | 1,257                           | 1,312        |
| Other income   |       | 27                                  | 14                                | 89                              | 36           |
| <b>Total non-interest income</b>   |       | <b>1,088</b>                        | <b>771</b>                        | <b>1,870</b>                    | <b>1,635</b> |
| <b>Operating and other Expenses</b>                                      |       |                                     |                                   |                                 |              |
| Salaries and related expenses  |       | 861                                 | 832                               | 1,720                           | 1,703        |
| Maintenance and depreciation of buildings and equipment                  |       | 268                                 | 291                               | 541                             | 575          |
| Other expenses   |       | 335                                 | 295                               | 620                             | 573          |
| <b>Total operating and other expenses</b>                                |       | <b>1,464</b>                        | <b>1,418</b>                      | <b>2,881</b>                    | <b>2,851</b> |
| Income before taxes  |       | 721                                 | 476                               | 1,097                           | 895          |
| Provision for taxes on income  |       | 272                                 | 190                               | 455                             | 344          |
| Income after taxes   |       | 449                                 | 286                               | 642                             | 551          |
| Bank's share in income (loss) of affiliated companies, net of tax effect |       | (2)                                 | 2                                 | (3)                             | 2            |
| <b>Net income:</b>   |       |                                     |                                   |                                 |              |
| Before attribution to non-controlling rights holders                     |       | 447                                 | 288                               | 639                             | 553          |
| Attributed to the non-controlling rights holders                         |       | (54)                                | (18)                              | (67)                            | (31)         |
| <b>Net income attributed to the Bank's shareholders</b>                  |       | <b>393</b>                          | <b>270</b>                        | <b>572</b>                      | <b>522</b>   |
| <b>Earnings per share of NIS 0.1 par value (in NIS)</b>                  |       |                                     |                                   |                                 |              |
| <b>Total earnings per share attributed to the Bank's shareholders</b>    |       | <b>0.37</b>                         | <b>0.26</b>                       | <b>0.54</b>                     | <b>0.50</b>  |
|  |       |                                     |                                   | <b>0.50</b>                     | <b>0.71</b>  |

The notes to the condensed financial statements form an integral part thereof.

Dr. Yossi Bachar  
Chairman of the  
Board of Directors

Ms. Lilach Asher-Topilsky  
President &  
Chief Executive Officer

Joseph Beressi  
Senior Executive Vice President,  
Chief Accountant

August 15, 2016

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME<sup>(1)</sup>

|  | Unaudited                           |              |                                   |                  | Audited                         |
|--|-------------------------------------|--------------|-----------------------------------|------------------|---------------------------------|
|  | For the three months ended June 30, |              | For the six months ended June 30, |                  | For the year ended December 31, |
|  | 2016                                | 2015         | 2016                              | 2015             | 2015                            |
|  | in NIS millions                     |              |                                   |                  |                                 |
| Net income before attribution to non-controlling rights holders                                      | 447                                 | 288          | 639                               | 553              | 807                             |
| Net income attributed to non-controlling rights holders  | (54)                                | (18)         | (67)                              | (31)             | (57)                            |
| <b>Net income attributed to the Bank's shareholders</b>  | <b>393</b>                          | <b>270</b>   | <b>572</b>                        | <b>522</b>       | <b>750</b>                      |
| <b>Other comprehensive income (loss), before taxes:</b>  |                                     |              |                                   |                  |                                 |
| Adjustments, net, for presentation of available-for-sale securities at fair value                    | 66                                  | (318)        | 175                               | (88)             | (192)                           |
| Financial statements translation adjustments, net  | 69                                  | (170)        | (47)                              | (97)             | 36                              |
| Adjustments of liabilities in respect of employee benefits <sup>(2)</sup>                            | (12)                                | 376          | (239)                             | 84               | 50                              |
| Net income in respect of cash flows hedge  | -                                   | 2            | 2                                 | 3                | 5                               |
| <b>Other comprehensive income (loss), before taxes</b>   | <b>123</b>                          | <b>(110)</b> | <b>(109)</b>                      | <b>(98)</b>      | <b>(101)</b>                    |
| Effect of attributed taxes   | (19)                                | (22)         | 14                                | 16               | 69                              |
| Other comprehensive income (loss), before attribution to non-controlling rights holders, after taxes | 104                                 | (132)        | (95)                              | (82)             | (32)                            |
| Other comprehensive loss attributed to non-controlling rights holders                                | 1                                   | 2            | (1)                               | <sup>(3)</sup> - | (1)                             |
| <b>Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes</b>          | <b>103</b>                          | <b>(134)</b> | <b>(94)</b>                       | <b>(82)</b>      | <b>(31)</b>                     |
| Comprehensive income, before attribution to non-controlling interests holders                        | 551                                 | 156          | 544                               | 471              | 775                             |
| Comprehensive income, attributed to non-controlling interests holders                                | (55)                                | (20)         | (66)                              | (31)             | (56)                            |
| <b>Comprehensive income, attributed to the Bank's shareholders</b>                                   | <b>496</b>                          | <b>136</b>   | <b>478</b>                        | <b>440</b>       | <b>719</b>                      |

Footnotes:

(1) See Note 4.

(2) Reflects mostly adjustments in respect of actuarial assessments as of the end of the period of defined benefits pension plans and amortization of amounts recorded in the past in other comprehensive income.

(3) An amount lower than NIS 1 million.

The notes to the condensed financial statements are an integral part thereof.

## CONDENSED CONSOLIDATED BALANCE SHEET

|   |      | Unaudited        |                      | Audited              |
|---|------|------------------|----------------------|----------------------|
|   | Note | June 30,<br>2016 | June 30,<br>2015     | December<br>31, 2015 |
| in NIS millions   |      |                  |                      |                      |
| <b>Assets</b>   |      |                  |                      |                      |
| Cash and deposits with banks  |      | 26,784           | 31,205               | 28,518               |
| Securities (of which: 4,578, 4,864, 4,725 respectively, pledged to lenders) | 5    | 38,053           | 36,590               | 38,935               |
| Securities borrowed or purchased under resale agreements                    |      | 288              | 607                  | 279                  |
| Credit to the public  | 6,14 | 135,185          | 122,257              | 129,268              |
| Allowance for credit losses   | 6,14 | (2,093)          | (1,978)              | (2,052)              |
| Credit to the public, net   |      | 133,092          | 120,279              | 127,216              |
| Credit to Governments   |      | 546              | 446                  | 515                  |
| Investments in affiliated companies   |      | 135              | 141                  | 144                  |
| Buildings and equipment   |      | 2,290            | <sup>(2)</sup> 2,198 | 2,175                |
| Intangible assets and goodwill  |      | 160              | 142                  | 142                  |
| Assets in respect of derivative instruments                                 | 11   | 3,812            | 3,523                | 3,208                |
| Other assets  |      | 3,713            | 3,680                | 3,696                |
| Noncurrent assets held for sale   | 18   | 9                | <sup>(2)</sup> 4,851 | 432                  |
| <b>Total assets</b>   |      | <b>208,882</b>   | <b>203,662</b>       | <b>205,260</b>       |

For footnotes see next page.

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

|   |      | Unaudited        |                  | Audited              |
|---|------|------------------|------------------|----------------------|
|   | Note | June 30,<br>2016 | June 30,<br>2015 | December<br>31, 2015 |
| in NIS millions                                       |      |                  |                  |                      |
| <b>Liabilities and Equity</b>                         |      |                  |                  |                      |
| Deposits from the public                              | 7    | 161,987          | 151,758          | 157,404              |
| Deposits from banks                                   |      | 4,539            | 4,545            | 3,907                |
| Deposits from the Government                          |      | 494              | 871              | 777                  |
| Securities loaned or sold under repurchase agreements |      | 3,621            | 3,702            | 3,833                |
| Bonds and subordinated debt notes                     |      | 8,765            | 9,885            | 9,570                |
| Liabilities in respect of derivative instruments      | 11   | 4,438            | 4,067            | 3,475                |
| Other liabilities <sup>(1)</sup>                      |      | 10,857           | 10,850           | 10,985               |
| Liabilities held for sale                             | 18   | -                | 4,524            | 1,675                |
| Total liabilities                                     |      | 194,701          | 190,202          | 191,626              |
| Equity attributed to the Bank's shareholders          |      | 13,769           | 13,039           | 13,288               |
| Non-controlling rights in consolidated companies      |      | 412              | 421              | 346                  |
| Total equity  |      | 14,181           | 13,460           | 13,634               |
| <b>Total Liabilities and Equity</b>                   |      | <b>208,882</b>   | <b>203,662</b>   | <b>205,260</b>       |

Footnotes:

(1) Of which 180 NIS million, NIS 185 million and NIS 206 million, as of June 30, 2016, June 30, 2015 and December 31, 2015, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

(2) Reclassified - classification of items in relation to buildings and equipment to non-current assets held for sale.

The notes to the condensed financial statements form an integral part thereof.

## CONDENSED STATEMENT OF CHANGES IN EQUITY

**A. For the three months ended June 30, 2016 and 2015 (unaudited)**

Balance at March 31, 2016

Net income for the period

Transactions with controlling shareholders

Other comprehensive income, net after tax effect

**Balance at June 30, 2016**

Balance at March 31, 2015

Net Income for the period

Other comprehensive loss, net after tax effect

**Balance at June 30, 2015****A. For the six months ended June 30, 2016 and 2015 (unaudited)**

Balance at December 31, 2015 (audited)

Net income for the period

Transactions with controlling shareholders

Other comprehensive loss, net after tax effect

**Balance at June 30, 2016**

Balance at December 31, 2014 (audited)

Net income for the period

Other comprehensive loss, net after tax effect

**Balance at June 30, 2015****B. For the year of 2015 (audited)**

Balance at December 31, 2014

Net income for the year

Purchase of non-controlling rights<sup>(1)</sup>

Other comprehensive loss, net after tax effect

**Balance at December 31, 2015**

Footnotes:

(1) See Note 17 A.

(2) An amount lower than NIS 1 million.

The notes to the condensed financial statements are an integral part thereof.

| Capital reserves |                             |                  |            |   |  |                      |   |                               |                 |
|------------------|-----------------------------|------------------|------------|---|--|----------------------|---|-------------------------------|-----------------|
|                  | Paid-up<br>Share<br>capital | Share<br>premium | Other      | Total<br>paid up<br>share<br>capital<br>and<br>reserves | Accumulated<br>other<br>comprehensive<br>income (loss) | Retained<br>earnings | Equity<br>attributed to<br>the Bank's<br>shareholders | Non-<br>controlling<br>rights | Total<br>equity |
|                  | in NIS millions             |                  |            |   |  |                      |   |                               |                 |
|                  | 665                         | 3,434            | 212        | 4,311   | (302)  | 9,261                | 13,270  | 357                           | 13,627          |
|                  | -                           | -                | -          | -   | -  | 393                  | 393   | 54                            | 447             |
|                  | -                           | -                | 3          | 3   | -  | -                    | 3   | -                             | 3               |
|                  | -                           | -                | -          | -   | 103  | -                    | 103   | (3)1                          | 104             |
|                  | <b>665</b>                  | <b>3,434</b>     | <b>215</b> | <b>4,314</b>  | <b>(199)</b>   | <b>9,654</b>         | <b>13,769</b>   | <b>412</b>                    | <b>14,181</b>   |
|                  | 665                         | 3,434            | 212        | 4,311   | (22)   | 8,614                | 12,903  | 401                           | 13,304          |
|                  | -                           | -                | -          | -   | -  | 270                  | 270   | 18                            | 288             |
|                  | -                           | -                | -          | -   | (134)  | -                    | (134)   | 2                             | (132)           |
|                  | <b>665</b>                  | <b>3,434</b>     | <b>212</b> | <b>4,311</b>  | <b>(156)</b>   | <b>8,884</b>         | <b>13,039</b>   | <b>421</b>                    | <b>13,460</b>   |
|                  | 665                         | 3,434            | 212        | 4,311   | (105)  | 9,082                | 13,288  | 346                           | 13,634          |
|                  | -                           | -                | -          | -   | -  | 572                  | 572   | 67                            | 639             |
|                  | -                           | -                | 3          | 3   | -  | -                    | 3   | -                             | 3               |
|                  | -                           | -                | -          | -   | (94)   | -                    | (94)  | (1)                           | (95)            |
|                  | <b>665</b>                  | <b>3,434</b>     | <b>215</b> | <b>4,314</b>  | <b>(199)</b>   | <b>9,654</b>         | <b>13,769</b>   | <b>412</b>                    | <b>14,181</b>   |
|                  | 665                         | 3,434            | 212        | 4,311   | (74)   | 8,362                | 12,599  | 390                           | 12,989          |
|                  | -                           | -                | -          | -   | -  | 522                  | 522   | 31                            | 553             |
|                  | -                           | -                | -          | -   | (82)   | -                    | (82)  | (2)1                          | (82)            |
|                  | <b>665</b>                  | <b>3,434</b>     | <b>212</b> | <b>4,311</b>  | <b>(156)</b>   | <b>8,884</b>         | <b>13,039</b>   | <b>421</b>                    | <b>13,460</b>   |
|                  | 665                         | 3,434            | 212        | 4,311   | (74)   | 8,362                | 12,599  | 390                           | 12,989          |
|                  | -                           | -                | -          | -   | -  | 750                  | 750   | 57                            | 807             |
|                  | -                           | -                | -          | -   | -  | (30)                 | (30)  | (100)                         | (130)           |
|                  | -                           | -                | -          | -   | (31)   | -                    | (31)  | (1)                           | (32)            |
|                  | <b>665</b>                  | <b>3,434</b>     | <b>212</b> | <b>4,311</b>  | <b>(105)</b>   | <b>9,082</b>         | <b>13,288</b>   | <b>346</b>                    | <b>13,634</b>   |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Unaudited                          |                      |                                  |                        | Audited                        |
|---|------------------------------------|----------------------|----------------------------------|------------------------|--------------------------------|
|   | For the three months ended June 30 |                      | For the six months ended June 30 |                        | For the year ended December 31 |
|   | 2016                               | 2015                 | 2016                             | 2015                   | 2015                           |
| in NIS millions   |                                    |                      |                                  |                        |                                |
| <b>Cash Flows from Operating Activities</b>   |                                    |                      |                                  |                        |                                |
| Net profit before attribution to non-controlling rights holders in consolidated companies | 447                                | 288                  | 639                              | 553                    | 807                            |
| Adjustments necessary to present cash flows from current operations:                      |                                    |                      |                                  |                        |                                |
| Bank's share in undistributed income of affiliated companies                              | 4                                  | (2)                  | 5                                | (2)                    | (9)                            |
| Depreciation of buildings and equipment (including impairment in value)                   | 115                                | 101                  | 224                              | 239                    | 512                            |
| Provision for impairment of securities  | 7                                  | 18                   | 10                               | 16                     | 108                            |
| Credit loss expenses  | 175                                | 176                  | 346                              | 348                    | 780                            |
| Gain on sale of credit portfolio, net   | (1)                                | (11)                 | (1)                              | (11)                   | (13)                           |
| Gain on sale of available-for-sale securities   | (51)                               | (40)                 | (106)                            | (190)                  | (284)                          |
| Gain on the sale of rights in Visa Europe   | (360)                              | -                    | (360)                            | -                      | -                              |
| Realized and non realized gain from adjustment to fair value of trading securities, net   | (11)                               | (10)                 | (21)                             | <sup>(1)</sup> (17)    | (14)                           |
| Gain on realization of buildings and equipment  | (20)                               | -                    | (80)                             | (14)                   | (50)                           |
| Net deferred taxes  | (79)                               | 178                  | (67)                             | 174                    | 173                            |
| Severance pay – increase in excess of provision over the deposits                         | 32                                 | (255)                | 238                              | (45)                   | 78                             |
| Net change in current assets:   |                                    |                      |                                  |                        |                                |
| Deposits with banks   | (11)                               | 94                   | 225                              | 1,859                  | 2,291                          |
| Credit to the public, net   | (3,122)                            | <sup>(2)</sup> 1,025 | (4,381)                          | <sup>(2)</sup> (1,710) | <sup>(2)</sup> (9,355)         |
| Credit to the Government  | (23)                               | (36)                 | (31)                             | 1,088                  | 1,018                          |
| Securities borrowed or purchased under resale agreements                                  | (105)                              | (221)                | (9)                              | (142)                  | 187                            |
| Assets in respect of derivative instruments   | (51)                               | 1,635                | (604)                            | 1,072                  | 1,388                          |
| Trading securities  | 254                                | 467                  | (289)                            | (938)                  | (1,554)                        |
| Other assets  | 135                                | 401                  | 65                               | 172                    | 4                              |
| Effect of changes in exchange rate on cash and cash equivalent balances                   | 28                                 | (131)                | (44)                             | (174)                  | (99)                           |
| Accrual differences included in investment and financing activities                       | (214)                              | 956                  | 502                              | <sup>(1)</sup> 666     | 218                            |
| Net change in current liabilities:  |                                    |                      |                                  |                        |                                |
| Deposits from banks   | 697                                | (1,260)              | 632                              | (1,002)                | (1,640)                        |
| Deposits from the public  | 584                                | (778)                | 4,310                            | (803)                  | 6,757                          |
| Deposits from the Government  | (115)                              | (36)                 | (283)                            | (1)                    | (95)                           |
| Securities borrowed or purchased under resale agreements                                  | (77)                               | (208)                | (212)                            | (282)                  | (151)                          |
| Liabilities in respect of derivative instruments  | (97)                               | (1,181)              | 963                              | (406)                  | (998)                          |
| Other liabilities   | 9                                  | (13)                 | (665)                            | (272)                  | (97)                           |
| Adjustments in respect of exchange rate differences on current assets and liabilities     | 79                                 | (51)                 | 33                               | (35)                   | (11)                           |
| <b>Net Cash Flows from (to) Operating Activities</b>                                      | <b>(1,771)</b>                     | <b>1,106</b>         | <b>1,039</b>                     | <b>143</b>             | <b>(49)</b>                    |

Footnotes:

(1) Reclassified, see Note 3, footnote 8.

(2) Classification between purchased credit portfolios and credit to the public, net, following the separate presentation of purchased credit portfolios. The notes to the condensed financial statements are an integral part thereof.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

|   | Unaudited                          |                      |                                  |                      | Audited                        |
|---|------------------------------------|----------------------|----------------------------------|----------------------|--------------------------------|
|   | For the three months ended June 30 |                      | For the six months ended June 30 |                      | For the year ended December 31 |
|   | 2016                               | 2015                 | 2016                             | 2015                 | 2015                           |
|   | in NIS millions                    |                      |                                  |                      |                                |
| <b>Cash Flows from Investing Activities</b>                             |                                    |                      |                                  |                      |                                |
| Acquisition of held-to-maturity bonds                                   | -                                  | -                    | (185)                            | -                    | (738)                          |
| Proceeds from redemption of held-to-maturity bonds                      | 135                                | 92                   | 282                              | 393                  | 539                            |
| Acquisition of available-for-sale securities                            | (3,782)                            | (4,934)              | (7,343)                          | (8,698)              | (17,836)                       |
| Proceeds from sale of available-for-sale securities                     | 1,779                              | 1,510                | 5,086                            | 6,258                | 12,019                         |
| Proceeds from sale of rights in Visa Europe                             | 209                                | -                    | 209                              | -                    | -                              |
| purchased credit portfolios   | (276)                              | <sup>(1)</sup> (245) | (558)                            | <sup>(1)</sup> (350) | <sup>(1)</sup> (1,123)         |
| Gain on sale of credit portfolio  | 264                                | 88                   | 424                              | 883                  | 1,290                          |
| Proceeds from redemption of available-for-sale securities               | 1,327                              | 2,357                | 1,828                            | 3,455                | 6,064                          |
| Business combinations - see Annex B                                     | 9                                  | -                    | 9                                | -                    | -                              |
| Proceeds of the sale of investments in investee companies and dividend  | 3                                  | 2                    | 3                                | 2                    | 6                              |
| The sale of operations of an investee company                           | <sup>(2)</sup> (47)                | -                    | <sup>(2)</sup> (1,272)           | -                    | -                              |
| Acquisition of buildings and equipment                                  | (222)                              | (54)                 | (328)                            | (169)                | (395)                          |
| Proceeds from sale of buildings and equipment                           | 26                                 | -                    | 101                              | 16                   | 101                            |
| <b>Net Cash Flows from (to) Investing Activities</b>                    | <b>(575)</b>                       | <b>(1,184)</b>       | <b>(1,744)</b>                   | <b>1,790</b>         | <b>(73)</b>                    |
| <b>Cash Flows from Financing Activities</b>                             |                                    |                      |                                  |                      |                                |
| Acquisition of shares in consolidated companies                         | -                                  | -                    | -                                | -                    | (130)                          |
| Issuance of debt notes  | 21                                 | -                    | 274                              | 344                  | 407                            |
| Redemption of debt notes  | (66)                               | (52)                 | (1,044)                          | (1,025)              | (1,428)                        |
| <b>Net cash flows from (to) Financing Activities</b>                    | <b>(45)</b>                        | <b>(52)</b>          | <b>(770)</b>                     | <b>(681)</b>         | <b>(1,151)</b>                 |
| Increase (decrease) in cash   | (2,391)                            | (130)                | (1,475)                          | 1,252                | (1,273)                        |
| Cash balance at beginning of period                                     | 28,806                             | 30,492               | 27,886                           | 29,013               | 29,013                         |
| Effect of changes in exchange rate on cash and cash equivalent balances | (40)                               | 17                   | (36)                             | 115                  | 146                            |
| <b>Cash balance at end of period</b>                                    | <b>26,375</b>                      | <b>30,379</b>        | <b>26,375</b>                    | <b>30,380</b>        | <b>27,886</b>                  |
| <b>Interest and taxes paid and/or received</b>                          |                                    |                      |                                  |                      |                                |
| Interest received   | 1,311                              | 1,373                | 2,745                            | 3,005                | 5,653                          |
| Interest paid   | (281)                              | (338)                | (645)                            | (829)                | (1,503)                        |
| Dividends received  | 8                                  | 13                   | 10                               | 16                   | 32                             |
| Taxes on income paid  | (259)                              | (96)                 | (344)                            | (207)                | (439)                          |
| Taxes on income received  | 262                                | -                    | 283                              | 50                   | 56                             |

Footnote:

(1) Classification between purchased credit portfolios and credit to the public, net, following the separate presentation of purchased credit portfolios.

(2) Most of the amount stems from a decrease in the deposits from the public item, which has been presented as part of liabilities held for sale.

The notes to the condensed financial statements are an integral part thereof.

## ANNEX A – BUSINESS COMBINATIONS

|                                     | Unaudited                          |          |                                  |          | Audited                        |
|-------------------------------------|------------------------------------|----------|----------------------------------|----------|--------------------------------|
|                                     | For the three months ended June 30 |          | For the six months ended June 30 |          | For the year ended December 31 |
|                                     | 2016                               | 2015     | 2016                             | 2015     | 2015                           |
|                                     | in NIS millions                    |          |                                  |          |                                |
| Net assets                          | (22)                               | -        | (22)                             | -        | -                              |
| Goodwill                            | (18)                               | -        | (18)                             | -        | -                              |
| Disregarding non-controlling rights | 49                                 | -        | 49                               | -        | -                              |
| <b>Business combinations</b>        | <b>9</b>                           | <b>-</b> | <b>9</b>                         | <b>-</b> | <b>-</b>                       |

## ANNEX B – INVESTING AND FINANCIAL ACTIVITIES NOT IN CASH IN THE REVIEWED PERIOD

|   | Unaudited                          |       |                                  |       | Audited                        |
|---|------------------------------------|-------|----------------------------------|-------|--------------------------------|
|   | For the three months ended June 30 |       | For the six months ended June 30 |       | For the year ended December 31 |
|   | 2016                               | 2015  | 2016                             | 2015  | 2015                           |
|   | in NIS millions                    |       |                                  |       |                                |
| Income from sale of rights in Visa Europe | 80                                 | -     | 80                               | -     | -                              |
| Purchase of fixed assets                  | -                                  | 1     | 12                               | 1     | 21                             |
| Lending of securities                     | 930                                | (407) | 1,706                            | (685) | (927)                          |

The notes to the condensed financial statements are an integral part thereof.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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## 1. ACCOUNTING POLICIES

**A. GENERAL.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of June 30, 2016, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in affiliated companies. The interim financial statements are prepared in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with directives and guidelines of the Supervisor of Banks with respect to the "quarterly report of a banking corporation", and they do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2015 and the accompanying notes.

The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2015 except as detailed in items E and G hereunder.

The interim financial statements were approved for publication by the Bank's Board of Directors on August 15, 2016.

**B. PRINCIPLES OF FINANCIAL REPORTING**

The interim financial statements are prepared according to Generally Accepted Accounting Principles in Israel (Israeli GAAP) and according to the instructions of the Reporting to the Public Directive of the Supervisor of Banks.

In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP). Where the International Financial Reporting Standards (IFRS) allow several alternatives, or where they do not include a specific reference to a particular situation, these instructions state specific implementation guidelines, based mostly on accounting principles accepted by U.S. banks.

**C. USE OF ASSESSMENTS AND DISCRETION**

In preparing the interim financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments.

Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

**D. CHANGE IN ASSESSMENT – INCREASING THE SPECIAL RESERVE FOR EXCEPTIONAL RETIREMENT CASES**

On the background of the actions taken to approve the Remuneration of Officers of Financial Corporations Act, a group of employees having significant seniority and high salaries has been defined, who are not officers, the component of enlarged severance pay in respect of which, if granted early retirement at beneficial terms, with the addition of their salary in the current year, will exceed the maximum remuneration prescribed by the Act.

Management of the Bank estimates that following approval of the said Act, there will be an increase in number of cases of early retirement, requiring the use of the special fund created in 2011, for exceptional retirement cases of employees belonging to the said group, and which is used by the Bank for early retirement of employees in exceptional cases, including cases within the framework of the implementation of the Bank's strategic plan of August 2014. In accordance with the said estimate in the financial statements as of March 31 2016, an additional amount of NIS 50 million has been allocated to the fund (see also Note 8D below).

**E. INITIAL IMPLEMENTATION OF ACCOUNTING STANDARDS, UPDATES OF ACCOUNTING STANDARDS AND DIRECTIVES OF THE SUPERVISOR OF BANKS**

Starting with the period beginning January 1, 2016, the Bank implements accounting standards and instructions as detailed hereunder:

- (1) Reporting according to U.S. generally accepted accounting principles regarding business combinations, consolidation of financial statements and investments in investee companies (see item 1 below);
- (2) Reporting according to U.S. generally accepted accounting principles regarding intangible assets (see item 2 below).
- (3) Regulatory and managerial operating segments (see item 3 below).

Starting with the period beginning April 1, 2016, the Bank applies the following instruction:

- (4) A change in the computation of the group allowance (see item 4 below).

## 1. ACCOUNTING POLICIES (CONTINUED)

Following is a description of the changes in the accounting policy adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. **Business combinations, consolidation of financial statements and investments in investee companies.** The Supervisor of Banks published a circular on June 14, 2015, in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP as regards business combinations, consolidation of financial statements and investments in investee companies". According to the circular, it is required to implement the U.S. GAAP in these matters in terms of the codification: Topic 805 regarding "business combinations"; Topic 810 regarding "consolidation"; Topic 350-20 regarding "intangibles – goodwill and other" as regards the accounting treatment of impairment of goodwill acquired in business combinations; and Topic 323 regarding "investments – equity method and joint ventures". The circular withdraws the transitional instruction that permitted not to make adjustments to the accounting policy relating to matters of core banking business, implemented by a non-financial affiliated company, these adjustments being required in order to adjust the accounting policy of such affiliated company to that of the banking corporation. Instead, the circular introduced a new transitional instruction which permits a banking corporation, in the years 2016-2017, to make no adjustments to the accounting policy implemented by a non-financial affiliated company, which prepares its financial statements in accordance with IFRS.

The Bank implements the said rules as from January 1, 2016.

**The initial implementation and its effect.** The implementation of the instruction did not have material effect.

The Supervisor of Banks granted the Bank a relief regarding old existing business combinations, and has agreed to defer by two years the application of the new instruction with respect to joint ventures.

2. **Reporting according to U.S. generally accepted accounting principles regarding Intangible assets.** The Supervisor of Banks issued on October 25, 2015, a circular in the matter of "reporting by banking corporations and credit card companies in Israel according to U.S. GAAP in the matter of intangible assets". According to the circular, a banking corporation shall apply the accounting principles accepted by U.S. banks in the matter of intangible assets, including in-house development costs of computer software, and among other things, the presentation, measurement and disclosure rules determined in Topic 350 of the codification. In this respect, the accounting treatment of goodwill, including examination of impairment thereof, has been updated in accordance with the circular described in item 1 above.

The Bank implements the said rules as from January 1, 2016.

**The initial implementation and its effect.** The implementation of the instruction did not have material effect.

3. **Regulatory and managerial operating segments.** An amendment to the reporting to the public instructions in the matter of regulatory operating segments was published on November 6, 2014. The amendments to the instructions are intended to impose the duty of reporting of operating segments in accordance with a uniform and comparable format as determined by the Supervisor of Banks.

The main changes are:

- Additional requirement for disclosure of "regulatory operating segments" was added, in accordance with the definition of the Supervisor of Banks. The format of disclosure regarding regulatory operating segments refers to the following segments: private banking, households, one-man and small businesses, medium businesses, large businesses, institutional bodies and financial management;
- New definitions were added clarifying which customers are to be included in each segment;
- A new requirement was added for a separate disclosure of the "financial management" segment.

The circular determines that the disclosure in the matter of "operating segments according to Management's approach" shall be provided in accordance with Generally Accepted Accounting Principles at U.S. banks in the matter of operating segments (included in ASC 280), to the extent that a difference exists between Management's approach and operating segments according to guidelines of the Supervisor of Banks.

The new rules apply as from the 2015 financial statements and thereafter, as follows:

- The disclosure requirement in the 2015 statements applies to balance sheet data regarding supervisory operating segments, as defined in the new instructions. According to the new instructions, a disclosure of balance sheet comparative data for the supervisory operating segments is not required, but to include comparative data in accordance with the Reporting to the Public Directives in effect prior to the letter taking effect. Furthermore, no disclosure is required for the financial management segment;

## 1. ACCOUNTING POLICIES (CONTINUED)

- Full disclosure according to the new rules is required as from the financial report for the first quarter of 2016, excluding disclosure of the financial management segment. The comparative data are to be adjusted retroactively. It is permitted to present in the financial statements for 2016 comparative data for one year only in respect of the Note regarding the supervisory operating segments. For the purpose of presentation of the comparative data it would be possible to rely on the classification of customers to supervisory operating segments as of January 1, 2016;
- Implementation in full of the guidelines of the circular is required as from the financial statements for the first quarter of 2017.

**The initial implementation and its effect.** The implementation of the instruction did not have material effect, save for the manner of presentation and disclosure. Notes 12 and 13 have been modified in order to include the required disclosure, subject to transitional instructions as detailed above.

4. **A change in the computation of the group allowance.** Note 1 D 4 to the financial statements as of December 31, 2015, described the accounting policy with respect to "impaired debts, credit risk and allowance for credit losses". As detailed in the said Note, the computation of the group allowance for credit losses was based, inter alia, on historical loss rates in the different economic sectors, divided between problematic and non-problematic credit, based on an average of five years ending on the reporting date. In accordance with the guideline of the Supervisor of Banks dated July 20, 2016, the rates of allowances for credit losses in the years 2011-2012 will continue to be included in the computation of the historical loss rates, so that the computation of historical loss rates for the years 2016 and 2017 shall be based, among other things, on an average of six and seven years, respectively.

**The initial implementation.** The guideline was implemented as from April 1, 2016.

### F. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

1. **Recognition of income from contracts with customers.** A circular was published on January 14, 2015, in the matter of adoption of the update for accounting principles regarding income from contracts with customers. The circular updates the Reporting to the Public Directives in view of the publication of ASU 2014-09, which adopts in U.S. GAAP a new standard in the matter of income recognition. The new standard does not apply, among other things, to financial instruments and to contractual rights or liabilities under Chapter 310 of the Codification.

The amendments in the Directives will apply as from January 1, 2018. In accordance with the transitional instructions of the circular, upon initial implementation it would be possible to elect the retroactive application alternative by way of a restatement of the comparative data, or the alternative of retroactive application by way of recording the cumulative effect of the initial implementation of the Standard, while attributing the cumulative effect, to be recognized at date of the initial implementation, to the equity.

The Bank has not yet examined the effect of the standard on its financial statements, and has not yet elected the alternative manner of implementation of the transitional instructions.

Additional details regarding this circular have been presented in the 2015 Annual Report in Note 1 E 1.

2. **Income Taxes.** The Supervisor of Banks issued on October 25, 2015, a circular in the matter of "reporting by banking corporations and credit card companies according to U.S. GAAP in the matter of Income Taxes".

The instruction will take effect as from January 1, 2017, and thereafter. Upon its initial implementation, a banking corporation shall act in accordance with the transitional instructions determined with respect to such matters, mutatis mutandis, including the retroactive restatements of the comparative data, where required with respect to these matters.

At present, the Bank applies in these matters the international financial reporting standards (IFRS), subject to the instructions and guidelines of the Supervisor of Banks.

The Bank is studying the instructions of the circular and their possible implications on the Bank.

On July 27, 2016, a draft circular was published in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP regarding taxes on income". The draft amends the Reporting to the Public Directives in view of the change to the application of U.S. GAAP regarding taxes on income, and is intended to assist banking corporations in the initial implementation of the rules determined in the new instructions.

## 1. ACCOUNTING POLICIES (CONTINUED)

In accordance with the draft, inter alia, temporary differences in respect of prior periods will continue to be treated according to the instructions in effect until December 31, 2016, and will not be restated.

- 3. Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues.** A circular was published on March 21, 2016, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP. The circular revises the Reporting to the Public Directives and adopts U.S. accepted accounting standards with respect to the following matters:

- Accounting principles accepted by U.S. banks regarding topic 830 of the Codification in the matter of "Foreign Currency Matters".
- Accounting principles accepted by U.S. banks regarding accounting policy, changes in accounting assessments and errors, including topic 250 of the Codification in the matter of "Accounting Changes and Error Corrections".
- Accounting principles accepted by U.S. banks regarding relating to events subsequent to balance sheet date, in accordance with topic 855-10 of the Codification in the matter of "Subsequent Events".

The provisions stated in the circular will take effect as from January 1, 2017 and thereafter. Upon the initial implementation thereof, it is required to follow the transitional instructions determined in these matters by the U.S. standards, with the required modifications, including the retroactive restatement of the comparative data, where required according to the U.S. standards in this matter. It is emphasized that when implementing the guidelines of topic 830 of the Codification regarding "foreign currency", in reported periods until January 1, 2019, banks shall not include exchange rate differences in respect of available-for-sale bonds as part of the adjustment to fair value of such bonds, but should continue to treat them as required by the Reporting to the Public Directives prior to the adoption of this matter.

Furthermore, International Accounting Standard 29 regarding "Financial Reporting in Hyperinflationary Economies", as adopted in the Reporting to the Public Directives, is not to be applied as from date of effect of the circular. It is clarified, that there is no change in the date on which the adjustment to inflation of financial statements of banking corporations has been terminated, and the financial statements have to be prepared on the basis of reported amounts, unless stated otherwise in the Reporting to the Public Directives.

The Bank has not yet begun studying the effect of the circular upon its financial statements.

- 4. A new revision of the standard regarding share based payment.** The U.S. Financial Accounting Standards Board (the "FASB") published on March 30, 2016, a revised Standard No. 2016-09 of the Codification, which comprises an amendment to instruction ASC 718 in the matter of "Compensation—Stock Compensation". The Amendment is aimed at simplifying various aspects of the accounting treatment of share based payments.

In the case of public entities, the Amendment shall be applied beginning with annual periods that start after December 15, 2016, and in their related interim periods. Early implementation is permitted.

- 5. Circular regarding the restructuring of a troubled debt.** A circular regarding the restructuring of a troubled debt was published on May 22, 2016. The circular updates the Reporting to the Public Directives in the light of the update No. 2011-02 published by the FASB, and in view of the new guidelines of the U.S. regulatory authorities.

The revisions in the circular shall apply to debt restructures effected or renewed as from December 31, 2016 and thereafter.

The guidelines regarding the treatment of a subsequent debt restructure shall be initially implemented at the election of the banking corporation - by way of from now onwards, or by way of implementation regarding outstanding debts as of December 31, 2016, which had undergone a subsequent restructure procedure and complied with the terms of the Directive. It is not required to restate the comparative data.

- 6. Draft document in the matter of repurchase transactions for redemption and financing repurchase transactions.** On July 23, 2015, a draft document regarding the adoption of Amendment No. 2014-11 of the Codification, published by the FASB on June 12, 2014, was tabled for discussion by the Advisory Committee at the Bank of Israel.

According to the draft document, the instruction will take effect as from January 1, 2016 and thereafter. Notwithstanding, as of date of publication of this Report, the new instruction is still in a draft form. Upon the initial implementation, a banking corporation shall act in accordance with the transitional instructions determined in the United States, mutatis mutandis.

As estimated by the Bank, the adoption of the Amendment as stated will not have a material impact.

Additional details regarding this draft have been presented in the 2015 Annual Report in Note 1 E 5.

## 1. ACCOUNTING POLICIES (CONTINUED)

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### G. CHANGE IN ACCOUNTING POLICY IN THE MATTER OF "CLASSIFICATION OF PROBLEMATIC DEBTS AND ALLOWANCES FOR CREDIT LOSSES" – MERCANTILE DISCOUNT BANK

In accordance with the Reporting to the Public Directives in the matter of: "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses" (hereinafter: "the Directive"), banking corporations are required to form an accounting policy for the implementation of the provisions of the Directive, which, among other things, include reference to the allowance for credit losses on a specific basis and for the allowance for credit losses on a group basis.

MDB had formed an accounting policy in this matter, as required, which determined a quantitative minimum amount of NIS 50 thousand. Namely, debts in amounts exceeding this minimum amount were examined by MDB on a specific basis.

The said quantitative minimum amount served MDB in the implementation of its accounting policy, since the date of effect of the Directive (January 1, 2011) and until December 31, 2015.

Following the experience gained by MDB in the implementation of the Directive, and tests made by Management of MDB during the past period regarding the modification of the said quantitative minimum amount to the composition of the credit portfolio of MDB and to the nature of its operations – which did not indicate significant income gaps between the two allowance channels (specific and group) for credit of small and medium volumes, on the one hand – and in view of the high investment of resources required in the examination of credit on a specific basis (including the requirement for compliance with strict and detailed documentation instructions in respect of this examination channel), on the other hand – Management of MDB has decided to change its accounting policy in this matter, with effect as from January 1, 2016, and increase the quantitative minimum amount from NIS 50 thousand to NIS 500 thousand.

The change in accounting policy, as stated, has been applied as from that date, and the results of such change were included in the condensed financial statements for the reported period. The comparative data for prior periods have not been restated, due to the lack of a practical possibility for a retroactive implementation of this change, and due to the fact that the implications on income stemming from the implementation of the change are not significant.



## 2. INTEREST INCOME AND EXPENSES – CONSOLIDATED

|   | Unaudited                           |                                   |       |       |
|---|-------------------------------------|-----------------------------------|-------|-------|
|   | For the three months ended June 30, | For the six months ended June 30, |       |       |
|   | 2016                                | 2015                              | 2016  | 2015  |
|   | in NIS millions                     |                                   |       |       |
| A. Interest Income <sup>(2)</sup>   |                                     |                                   |       |       |
| Credit to the public  | 1,309                               | 1,314                             | 2,401 | 2,277 |
| Credit to the Governments   | 5                                   | 7                                 | 8     | 9     |
| Deposits with the Bank of Israel and cash   | 6                                   | 7                                 | 12    | 19    |
| Deposits with Banks   | 5                                   | 7                                 | 9     | 15    |
| Securities borrowed or purchased under resale agreements                                      | (4)_                                | (4)_                              | (4)_  | (4)_  |
| Bonds <sup>(1)</sup>  | 164                                 | 204                               | 272   | 295   |
| Other assets  | 5                                   | 11                                | 18    | 17    |
| Total interest income   | 1,494                               | 1,550                             | 2,720 | 2,632 |
| B. Interest Expenses  |                                     |                                   |       |       |
| Deposits from the public  | (154)                               | (205)                             | (223) | (213) |
| Deposits from the Government  | (2)                                 | (1)                               | (3)   | (3)   |
| Deposits from banks   | (6)                                 | (10)                              | (13)  | (17)  |
| Securities loaned or sold under repurchase agreements   | (36)                                | (36)                              | (74)  | (74)  |
| Bonds and subordinated debt notes   | (139)                               | (202)                             | (192) | (208) |
| Other liabilities   | (2)                                 | (1)                               | (3)   | (2)   |
| Total interest expenses   | (339)                               | (455)                             | (508) | (517) |
| Interest Income, Net  | 1,155                               | 1,095                             | 2,212 | 2,115 |
| C. Details of the net effect of hedge derivative instruments on interest income and expenses: |                                     |                                   |       |       |
| Interest Income (expenses) <sup>(3)</sup>   | (79)                                | 30                                | (191) | 11    |
| D. Accrual basis, interest income from bonds:   |                                     |                                   |       |       |
| Held-to-maturity  | 61                                  | 70                                | 103   | 108   |
| Available-for-sale  | 96                                  | 128                               | 164   | 185   |
| Trading   | 7                                   | 6                                 | 5     | 2     |
| Total included in interest income   | 164                                 | 204                               | 272   | 295   |

Footnotes:

- (1) Financing income generated by mortgage backed securities (MBS) - in US \$ millions
- |  |    |    |    |    |
|--|----|----|----|----|
|  | 11 | 10 | 22 | 20 |
|--|----|----|----|----|
- Financing income generated by mortgage backed securities (MBS) - in NIS millions
- |  |    |    |    |    |
|--|----|----|----|----|
|  | 42 | 37 | 85 | 77 |
|--|----|----|----|----|
- (2) Including the effective component of hedging relationships.
- (3) Details of the effect of hedge derivative instruments on subsection A.
- (4) An amount lower than NIS 1 million.

## 3. NON-INTEREST FINANCING INCOME – CONSOLIDATED

|   | Unaudited                           |              |                                   |                   |
|---|-------------------------------------|--------------|-----------------------------------|-------------------|
|   | For the three months ended June 30, |              | For the six months ended June 30, |                   |
|   | 2016                                | 2015         | 2016                              | 2015              |
|   | in NIS millions                     |              |                                   |                   |
| <b>A. Non-interest financing income from operations not for trading purposes</b>                                  |                                     |              |                                   |                   |
| <b>1. From operations in derivative instruments</b>   |                                     |              |                                   |                   |
| Net income (expenses) in respect of ALM derivative instruments <sup>(4)</sup>                                     | 140                                 | (509)        | (187)                             | (677)             |
| <b>Total from operations in derivative instruments</b>  | <b>140</b>                          | <b>(509)</b> | <b>(187)</b>                      | <b>(677)</b>      |
| <b>2. From investments in bonds<sup>(9)</sup>:</b>  |                                     |              |                                   |                   |
| Gains on sale of available-for-sale bonds   | 44                                  | 17           | 107                               | 152               |
| Losses on sale of available-for-sale bonds  | (1)                                 | -            | (3)                               | (8)               |
| Provision for impairment of available-for-sale bonds  | (6)                                 | (3)          | (9)                               | (3)               |
| <b>Total from investments in bonds</b>  | <b>37</b>                           | <b>14</b>    | <b>95</b>                         | <b>141</b>        |
| <b>3. Net exchange rate differences</b>   | <b>(142)</b>                        | <b>550</b>   | <b>191</b>                        | <b>(8)734</b>     |
| <b>4. Net profit (losses) from investments in shares:</b>   |                                     |              |                                   |                   |
| Gains on sale of available-for-sale shares <sup>(3)</sup>   | 8                                   | 23           | 14                                | 49                |
| Gains on sale of rights in Visa Europe <sup>(7)</sup>   | 360                                 | -            | 360                               | -                 |
| Losses on sale of available-for-sale shares <sup>(3)</sup>  | -                                   | -            | (12)                              | (3)               |
| Provision for impairment of available-for-sale shares <sup>(3)</sup>  | (1)                                 | (15)         | (1)                               | (13)              |
| Dividends from available-for-sale shares  | 5                                   | 12           | 7                                 | 14                |
| Profit on sale of activities of affiliated companies  | -                                   | -            | 18                                | -                 |
| <b>Total from investment in shares</b>  | <b>372</b>                          | <b>20</b>    | <b>386</b>                        | <b>47</b>         |
| <b>5. Net income in respect of loans sold</b>   | <b>1</b>                            | <b>11</b>    | <b>1</b>                          | <b>11</b>         |
| <b>Total non-interest financing income from operations not for trading purposes</b>                               | <b>408</b>                          | <b>86</b>    | <b>486</b>                        | <b>256</b>        |
| <b>B. Non-interest financing income from operations for trading purposes<sup>(6)</sup>:</b>                       |                                     |              |                                   |                   |
| Net income in respect of other derivative instruments   | 9                                   | 6            | 17                                | 14                |
| Net realized and non-realized income on adjustment of trading bonds to fair value <sup>(1)</sup>                  | 10                                  | 10           | 20                                | <sup>(8)</sup> 16 |
| Net realized and non-realized income on adjustment of trading shares to fair value <sup>(2)</sup>                 | 1                                   | -            | 1                                 | 1                 |
| <b>Total from trading operations<sup>(6)</sup></b>  | <b>20</b>                           | <b>16</b>    | <b>38</b>                         | <b>31</b>         |
| <b>Details of non-interest financing income from operations for trading purposes, according to risk exposure:</b> |                                     |              |                                   |                   |
| Interest rate exposure  | 15                                  | 11           | 27                                | <sup>(8)</sup> 18 |
| Foreign currency exposure   | 2                                   | 3            | 5                                 | 7                 |
| Share exposure  | 3                                   | 2            | 6                                 | 6                 |
| <b>Total according to risk exposure</b>   | <b>20</b>                           | <b>16</b>    | <b>38</b>                         | <b>31</b>         |
| <b>Total non-interest financing income</b>  | <b>428</b>                          | <b>102</b>   | <b>524</b>                        | <b>287</b>        |

Footnotes:

- (1) Of which, a part of the income (losses) relating to trading bonds that are still on hand at balance sheet date
- (2) Of which, a part of the losses relating to trading shares that are still on hand at balance sheet date
- (3) Reclassified from accumulated other comprehensive income, see Note 4:
 

|   |    |     |    |      |
|---|----|-----|----|------|
| Of which income, from investments in bonds, net | 37 | 14  | 98 | 141  |
| Of which, from investment in shares             | -  | (9) | -  | (10) |
- (4) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.
- (5) Including exchange rate differences from trading operations.
- (6) For interest income on investments in trading bonds, see Note 2, above.
- (7) See Note 17 C. The consideration has been calculated in accordance with the cash consideration received in June 2016, with the addition of the fair value of the special preferred shares in VISA Inc. received in June 2016 (the market value of the VISA shares to be received upon conversion of the said preferred shares, discounted by a coefficient of 50%, in accordance with the Bank's assessment of the share blockage impact and the effect of certain uncertainties inherent in the conversion mechanism) and of the future cash consideration expected to be received in the year 2019.
- (8) Reclassified, in this note.

#### 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

##### A. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) AFTER TAX EFFECT

|   |   |  |  |   |              | Other comprehensive income attributed to non-controlling rights holders | Other comprehensive income attributed to the Bank's shareholders |
|---|---|--|--|---|--------------|---|--|
|   | Adjustments, net, for presentation of available-for-sale securities at fair value | Financial statements translation adjustments, net after hedge effects <sup>(1)</sup> | Net income (loss) in respect of cash flows hedge | Adjustments in respect of employee benefits | Total        |   |  |
| in NIS millions   |   |  |  |   |              |   |  |
| <b>A. For the three months ended June 30, 2016 and 2015 (unaudited)</b> |   |  |  |   |              |   |  |
| Balance at March 31, 2016   | 231   | (50)   | 1  | (487)                                       | (305)        | (3)   | (302)  |
| Net change during the period  | 42  | 69   | -  | (7)   | 104          | 1   | 103  |
| <b>Balance at June 30, 2016</b>   | <b>273</b>  | <b>19</b>  | <b>1</b>   | <b>(494)</b>                                | <b>(201)</b> | <b>(2)</b>  | <b>(199)</b>   |
| Balance at March 31, 2015   | 420   | 103  | (2)  | (545)                                       | (24)         | (2)   | (22)   |
| Net change during the period  | (198)   | (170)  | 1  | 235   | (132)        | 2   | (134)  |
| <b>Balance at June 30, 2015</b>   | <b>222</b>  | <b>(67)</b>  | <b>(1)</b>                                       | <b>(310)</b>                                | <b>(156)</b> | <b>-</b>  | <b>(156)</b>   |
| <b>B. For the six months ended June 30, 2016 and 2015 (unaudited)</b>   |   |  |  |   |              |   |  |
| Balance at December 31, 2015 (audited)                                  | 162   | 66   | <sup>(2)</sup> -                                 | (334)                                       | (106)        | (1)   | (105)  |
| Net change during the period  | 111   | (47)   | 1  | (160)                                       | (95)         | (1)   | (94)   |
| <b>Balance at June 30, 2016</b>   | <b>273</b>  | <b>19</b>  | <b>1</b>   | <b>(494)</b>                                | <b>(201)</b> | <b>(2)</b>  | <b>(199)</b>   |
| Balance at December 31, 2014 (audited)                                  | 261   | 30   | (3)  | (362)                                       | (74)         | -   | (74)   |
| Net change during the period  | (39)  | (97)   | 2  | 52  | (82)         | -   | (82)   |
| <b>Balance at June 30, 2015</b>   | <b>222</b>  | <b>(67)</b>  | <b>(1)</b>                                       | <b>(310)</b>                                | <b>(156)</b> | <b>-</b>  | <b>(156)</b>   |
| <b>C. For the year of 2015 (audited)</b>                                |   |  |  |   |              |   |  |
| Balance at December 31, 2014  | 261   | 30   | (3)  | (362)                                       | (74)         | -   | (74)   |
| Net change during the year  | (99)  | 36   | 3  | 28  | (32)         | (1)   | (31)   |
| <b>Balance at December 31, 2015</b>                                     | <b>162</b>  | <b>66</b>  | <sup>(2)</sup> -                                 | <b>(334)</b>                                | <b>(106)</b> | <b>(1)</b>  | <b>(105)</b>   |

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) An amount lower than NIS 1 million.

## 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

## B. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) COMPONENT BEFORE TAX EFFECT AND AFTER TAX EFFECT

| Unaudited   |                 |             |                |                  |              |                |
|---|-----------------|-------------|----------------|------------------|--------------|----------------|
| For the three months ended  |                 |             |                |                  |              |                |
|   | June 30, 2016   |             | June 30, 2015  |                  |              |                |
|   | Before<br>taxes | Tax effect  | After<br>taxes | Before<br>taxes  | Tax effect   | After<br>taxes |
| in NIS millions   |                 |             |                |                  |              |                |
| Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling rights holders: |                 |             |                |                  |              |                |
| Adjustments for presentation of available-for-sale securities at fair value   |                 |             |                |                  |              |                |
| Net unrealized income (loss) from adjustments to fair value   | 103             | (38)        | 65             | (313)            | 114          | (199)          |
| Loss (income) on available-for-sale securities reclassified to the statement of income <sup>(2)</sup>                         | (37)            | 14          | (23)           | (5)              | 6            | 1              |
| <b>Net change during the period</b>   | <b>66</b>       | <b>(24)</b> | <b>42</b>      | <b>(318)</b>     | <b>120</b>   | <b>(198)</b>   |
| Translation adjustments   |                 |             |                |                  |              |                |
| Financial statements translation adjustments <sup>(1)</sup>   | 69              | -           | 69             | (170)            | -            | (170)          |
| <b>Net change during the period</b>   | <b>69</b>       | <b>-</b>    | <b>69</b>      | <b>(170)</b>     | <b>-</b>     | <b>(170)</b>   |
| Cash flow hedging   |                 |             |                |                  |              |                |
| Net income (loss) in respect of cash flow hedging   | (1)             | 1           | -              | <sup>(5)</sup> 1 | (1)          | -              |
| Net loss (income) in respect of cash flow hedging reclassified to the statement of income                                     | 1               | (1)         | -              | <sup>(5)</sup> 1 | -            | 1              |
| <b>Net change during the period</b>   | <b>-</b>        | <b>-</b>    | <b>-</b>       | <b>2</b>         | <b>(1)</b>   | <b>1</b>       |
| Employee benefits <sup>(3)</sup>  |                 |             |                |                  |              |                |
| Net actuarial income (loss)   | (22)            | 8           | (14)           | 371              | (139)        | 232            |
| Loss (income) reclassified to the statement of income   | 10              | (3)         | 7              | 5                | (2)          | 3              |
| <b>Net change during the period</b>   | <b>(12)</b>     | <b>5</b>    | <b>(7)</b>     | <b>376</b>       | <b>(141)</b> | <b>235</b>     |
| <b>Total net changes during the period</b>  | <b>123</b>      | <b>(19)</b> | <b>104</b>     | <b>(110)</b>     | <b>(22)</b>  | <b>(132)</b>   |
| Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:          |                 |             |                |                  |              |                |
| <b>Total net changes during the period</b>  | <b>1</b>        | <b>(4)</b>  | <b>1</b>       | <b>3</b>         | <b>(1)</b>   | <b>2</b>       |
| Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:                 |                 |             |                |                  |              |                |
| <b>Total net changes during the period</b>  | <b>122</b>      | <b>(19)</b> | <b>103</b>     | <b>(113)</b>     | <b>(21)</b>  | <b>(134)</b>   |

For footnotes see next page.

## 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

## B. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) COMPONENT BEFORE TAX EFFECT AND AFTER TAX EFFECT (CONTINUED)

|  | Unaudited                |             |              |              |             |             | Audited            |             |             |
|--|--------------------------|-------------|--------------|--------------|-------------|-------------|--------------------|-------------|-------------|
|  | For the six months ended |             |              |              |             |             | For the year ended |             |             |
|  | 2016                     |             |              | 2015         |             |             | 2015               |             |             |
|  | Before taxes             | Tax effect  | After taxes  | Before taxes | Tax effect  | After taxes | Before taxes       | Tax effect  | After taxes |
| in NIS millions  |                          |             |              |              |             |             |                    |             |             |
| <b>Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling rights holders:</b> |                          |             |              |              |             |             |                    |             |             |
| <b>Adjustments for presentation of available-for-sale securities at fair value</b>   |                          |             |              |              |             |             |                    |             |             |
| Net unrealized income (loss) from adjustments to fair value  | 273                      | (100)       | 173          | 43           | (4)         | 39          | (63)               | 8           | (55)        |
| Loss (income) on available-for-sale securities reclassified to the statement of income <sup>(2)</sup>                                | (98)                     | 36          | (62)         | (131)        | 53          | (78)        | (129)              | 85          | (44)        |
| <b>Net change during the period</b>  | <b>175</b>               | <b>(64)</b> | <b>111</b>   | <b>(88)</b>  | <b>49</b>   | <b>(39)</b> | <b>(192)</b>       | <b>93</b>   | <b>(99)</b> |
| <b>Translation adjustments</b>   |                          |             |              |              |             |             |                    |             |             |
| Financial statements translation adjustments <sup>(1)</sup>  | (47)                     | -           | (47)         | (97)         | -           | (97)        | 36                 | -           | 36          |
| <b>Net change during the period</b>  | <b>(47)</b>              | <b>-</b>    | <b>(47)</b>  | <b>(97)</b>  | <b>-</b>    | <b>(97)</b> | <b>36</b>          | <b>-</b>    | <b>36</b>   |
| <b>Cash flow hedging</b>   |                          |             |              |              |             |             |                    |             |             |
| Net income (loss) in respect of cash flow hedging  | -                        | -           | -            | (5)          | (5)         | -           | (2)                | 1           | (1)         |
| Net (income) loss in respect of cash flow hedging reclassified to the statement of income  | 2                        | (1)         | 1            | (5)          | (1)         | 2           | 7                  | (3)         | 4           |
| <b>Net change during the period</b>  | <b>2</b>                 | <b>(1)</b>  | <b>1</b>     | <b>3</b>     | <b>(1)</b>  | <b>2</b>    | <b>5</b>           | <b>(2)</b>  | <b>3</b>    |
| <b>Employee benefits</b>   |                          |             |              |              |             |             |                    |             |             |
| Net actuarial income (loss)  | (256)                    | 85          | (171)        | 80           | (31)        | 49          | 30                 | (13)        | 17          |
| Loss (income) reclassified to the statement of income <sup>(3)</sup>   | 17                       | (6)         | 11           | 4            | (1)         | 3           | 20                 | (9)         | 11          |
| <b>Net change during the period</b>  | <b>(239)</b>             | <b>79</b>   | <b>(160)</b> | <b>84</b>    | <b>(32)</b> | <b>52</b>   | <b>50</b>          | <b>(22)</b> | <b>28</b>   |
| <b>Total net change during the period</b>  | <b>(109)</b>             | <b>14</b>   | <b>(95)</b>  | <b>(98)</b>  | <b>16</b>   | <b>(82)</b> | <b>(101)</b>       | <b>69</b>   | <b>(32)</b> |
| <b>Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:</b>          |                          |             |              |              |             |             |                    |             |             |
| <b>Total net change during the period</b>  | <b>(1)</b>               | <b>(4)</b>  | <b>(1)</b>   | <b>(4)</b>   | <b>(4)</b>  | <b>-</b>    | <b>(1)</b>         | <b>(4)</b>  | <b>(1)</b>  |
| <b>Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:</b>                 |                          |             |              |              |             |             |                    |             |             |
| <b>Total net change during the period</b>  | <b>(108)</b>             | <b>14</b>   | <b>(94)</b>  | <b>(98)</b>  | <b>16</b>   | <b>(82)</b> | <b>(100)</b>       | <b>69</b>   | <b>(31)</b> |

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) The pre-tax amount is reported in the statement of income in the item "non-interest financing income". For further details see the note on non-interest financing income.

(3) The pretax amount has been classified in the Note "Salaries and related expenses".

(4) An amount lower than NIS 1 million.

(5) Reclassified, in this note.

## 5. SECURITIES - CONSOLIDATED

## A. COMPOSITION

| Unaudited  |              |                 |  |   |                           |
|--|--------------|-----------------|--|---|---------------------------|
| June 30, 2016  |              |                 |  |   |                           |
|  | Book value   | Amortized cost  | Unrecognized gains from adjustment to fair value | Unrecognized losses from adjustment to fair value | Fair value <sup>(1)</sup> |
| In NIS millions  |              |                 |  |   |                           |
| <b>(1) Held-to-maturity bonds</b>                                    |              |                 |  |   |                           |
| Bonds and loans:   |              |                 |  |   |                           |
| Of the Israeli Government  | 3,850        | 3,850           | 319  | -   | 4,169                     |
| Of foreign governments   | 115          | 115             | 1  | -   | 116                       |
| Of Israeli financial institutions                                    | 83           | 83              | 5  | -   | 88                        |
| Of foreign financial institutions                                    | 35           | 35              | -  | 1   | 34                        |
| ◊Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS) | 927          | 927             | 17   | 4   | 940                       |
| Of others abroad <sup>(6)</sup>                                      | 1,762        | 1,762           | 112  | -   | 1,874                     |
| <b>Total held-to-maturity bonds</b>                                  | <b>6,772</b> | <b>(2)6,772</b> | <b>454</b>                                       | <b>5</b>  | <b>7,221</b>              |

| Unaudited  |               |                                   |               |  |                           |
|--|---------------|-----------------------------------|---------------|--|---------------------------|
| June 30, 2016  |               |                                   |               |  |                           |
|  | Book value    | Amortized cost (in shares - cost) | Profits       | Accumulated other comprehensive income<br>Losses | Fair value <sup>(1)</sup> |
| In NIS millions  |               |                                   |               |  |                           |
| <b>(2) Available for sale securities</b>                             |               |                                   |               |  |                           |
| Bonds and loans:   |               |                                   |               |  |                           |
| Of the Israeli Government  | 15,128        | 14,846                            | 288           | 6  | 15,128                    |
| Of foreign governments   | 725           | 725                               | 7             | 7  | 725                       |
| Of Israeli financial institutions                                    | 54            | 52                                | 2             | <sup>(8)</sup> -                                 | 54                        |
| Of foreign financial institutions                                    | 1,403         | 1,419                             | 9             | 25   | 1,403                     |
| ◊Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS) | 7,564         | 7,466                             | 109           | 11   | 7,564                     |
| Of others in Israel*   | 374           | 362                               | 13            | 1  | 374                       |
| Of others abroad <sup>(7)</sup>                                      | 1,907         | 1,902                             | 14            | 9  | 1,907                     |
| Total bonds  | 27,155        | 26,772                            | 442           | 59   | <sup>(2)</sup> 27,155     |
| Shares   | 919           | 915                               | 5             | 1  | <sup>(4)</sup> 919        |
| <b>Total available-for-sale securities</b>                           | <b>28,074</b> | <b>27,687</b>                     | <b>(3)447</b> | <b>(3)60</b>                                     | <b>28,074</b>             |
| * Of which: Bonds backed by State guarantees                         | 120           | 120                               | -             | <sup>(8)</sup> -                                 | 120                       |

For footnotes see next page.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## A. COMPOSITION (CONTINUED)

| Unaudited  |               |   |   |  |                           |
|--|---------------|---|---|--|---------------------------|
| June 30, 2016  |               |   |   |  |                           |
|  | Book value    | Amortized cost<br>(in shares -<br>cost) | Unrealized<br>gains from<br>adjustment to<br>fair value | Unrealized<br>losses from<br>adjustment to<br>fair value | Fair value <sup>(1)</sup> |
| In NIS millions  |               |   |   |  |                           |
| <b>(3) Trading Securities</b>  |               |   |   |  |                           |
| Bonds and loans:   |               |   |   |  |                           |
| Of the Israeli Government  | 3,115         | 3,104                                   | 12  | 1  | 3,115                     |
| Of foreign financial institutions  | 1             | 1                                       | -   | -  | 1                         |
| Of Mortgage-backed-securities (MBS) or<br>Assets-backed-securities (ABS) | 56            | 55                                      | 1   | (8) 1  | 56                        |
| Of others in Israel  | 14            | 14                                      | (8) 1   | -  | 14                        |
| Of others abroad   | 14            | 13                                      | 1   | -  | 14                        |
| Total bonds  | 3,200         | 3,187                                   | 14  | 1  | 3,200                     |
| Shares   | 7             | 8                                       | 1   | 2  | 7                         |
| <b>Total trading securities</b>  | <b>3,207</b>  | <b>3,195</b>                            | <b>(5) 15</b>   | <b>(5) 3</b>   | <b>3,207</b>              |
| <b>Total securities</b>  | <b>38,053</b> | <b>37,654</b>                           | <b>916</b>  | <b>68</b>  | <b>38,502</b>             |

## Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 681 million (approx. US\$ 177 million) and from the available for sale portfolio with a market value of NIS 3,500 million (approx. US\$ 910 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 842 million.
- (5) Recorded in the statement of income.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,761 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 69 million (Book value).
- (8) An amount lower than NIS 1 million.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## A. COMPOSITION (CONTINUED)

| Unaudited   |              |                            |  |   |                           |
|---|--------------|----------------------------|--|---|---------------------------|
| June 30, 2015   |              |                            |  |   |                           |
|   | Book value   | Amortized cost             | Unrecognized gains from adjustment to fair value | Unrecognized losses from adjustment to fair value | Fair value <sup>(1)</sup> |
| In NIS millions   |              |                            |  |   |                           |
| <b>(1) Held-to-maturity bonds</b>                                   |              |                            |  |   |                           |
| Bonds and loans:  |              |                            |  |   |                           |
| Of the Israeli Government   | 3,749        | 3,749                      | 358  | <sup>(9)</sup> -                                  | 4,107                     |
| Of foreign governments  | 19           | 19                         | -  | -   | 19                        |
| Of Israeli financial institutions                                   | 85           | 85                         | 6  | -   | 91                        |
| Of foreign financial institutions                                   | 83           | 83                         | -  | 1   | 82                        |
| ○Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 1,096        | 1,096                      | 17   | 10  | 1,103                     |
| Of others abroad <sup>(6)</sup>                                     | 1,882        | 1,882                      | 86   | 7   | 1,961                     |
| <b>Total held-to-maturity bonds</b>                                 | <b>6,914</b> | <b><sup>(2)</sup>6,914</b> | <b>467</b>                                       | <b>18</b>   | <b>7,363</b>              |

| Unaudited   |               |                                   |                          |  |                           |
|---|---------------|-----------------------------------|--------------------------|--|---------------------------|
| June 30, 2015   |               |                                   |                          |  |                           |
|   | Book value    | Amortized cost (in shares - cost) | Profits                  | Accumulated other comprehensive income<br>Losses | Fair value <sup>(1)</sup> |
| In NIS millions   |               |                                   |                          |  |                           |
| <b>(2) Available for sale securities</b>                            |               |                                   |                          |  |                           |
| Bonds and loans:  |               |                                   |                          |  |                           |
| Of the Israeli Government   | 14,602        | 14,298                            | 316                      | 12   | 14,602                    |
| Of foreign governments  | 1,076         | 1,072                             | 5                        | 1  | 1,076                     |
| Of Israeli financial institutions                                   | 341           | 337                               | 6                        | 2  | 341                       |
| Of foreign financial institutions                                   | 1,769         | 1,752                             | 25                       | 8  | 1,769                     |
| ○Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 7,178         | 7,205                             | 27                       | 54   | 7,178                     |
| Of others in Israel*  | 786           | 767                               | 22                       | 3  | 786                       |
| Of others abroad <sup>(7)</sup>                                     | 207           | 210                               | -                        | 3  | 207                       |
| Total bonds   | 25,959        | 25,641                            | 401                      | 83   | <sup>(2)</sup> 25,959     |
| Shares  | 1,329         | 1,341                             | 3                        | 15   | <sup>(4)</sup> 1,329      |
| <b>Total available-for-sale securities</b>                          | <b>27,288</b> | <b>26,982</b>                     | <b><sup>(3)</sup>404</b> | <b><sup>(3)</sup>98</b>                          | <b>27,288</b>             |

\* Of which: Bonds backed by State guarantees

For footnotes see next page.

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## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## A. COMPOSITION (CONTINUED)

| Unaudited   |               |   |   |  |                           |
|---|---------------|---|---|--|---------------------------|
| June 30, 2015   |               |   |   |  |                           |
|   | Book value    | Amortized cost<br>(in shares -<br>cost) | Unrealized<br>gains from<br>adjustment to<br>fair value | Unrealized<br>losses from<br>adjustment to<br>fair value | Fair value <sup>(1)</sup> |
| In NIS millions   |               |   |   |  |                           |
| <b>(3) Trading Securities</b>   |               |   |   |  |                           |
| Bonds and loans:  |               |   |   |  |                           |
| Of the Israeli Government   | 1,434         | 1,436                                   | 1   | 3  | 1,434                     |
| Of foreign governments  | 792           | 792                                     | -   | -  | 792                       |
| Of Israeli financial institutions                                       | 10            | 10                                      | -   | (9)  | 10                        |
| Of foreign financial institutions                                       | 5             | 5                                       | -   | -  | 5                         |
| ○Mortgage-backed-securities (MBS) or<br>Assets -backed-securities (ABS) | 52            | 51                                      | 1   | (9)  | 52                        |
| Of others in Israel   | 85            | 87                                      | -   | 2  | 85                        |
| Of others abroad  | 2             | 2                                       | -   | -  | 2                         |
| Total bonds   | 2,380         | 2,383                                   | 2   | 5  | 2,380                     |
| Shares  | 8             | 9                                       | 1   | 2  | 8                         |
| <b>Total trading securities</b>   | <b>2,388</b>  | <b>2,392</b>                            | <b>(5)3</b>   | <b>(5)7</b>  | <b>2,388</b>              |
| <b>Total securities<sup>(8)</sup></b>                                   | <b>36,590</b> | <b>36,288</b>                           | <b>874</b>  | <b>123</b>   | <b>37,039</b>             |

## Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 772 million (approx. US\$ 205 million) and from the available for sale portfolio with a market value of NIS 3,539 million (approx. US\$ 939 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 771 million.
- (5) Recorded in the statement of income.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 1,817 million (book value).
- (7) Including U.S. Government agencies, in amount of NIS 64 million (book value).
- (8) Excluding balances classified as assets and liabilities held for sale - see Note 18.
- (9) An amount lower than NIS 1 million.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## A. COMPOSITION (CONTINUED)

| Audited  |              |                 |  |   |                           |
|--|--------------|-----------------|--|---|---------------------------|
| December 31, 2015  |              |                 |  |   |                           |
|  | Book value   | Amortized cost  | Unrecognized gains from adjustment to fair value | Unrecognized losses from adjustment to fair value | Fair value <sup>(1)</sup> |
| In NIS millions  |              |                 |  |   |                           |
| <b>(1) Held-to-maturity bonds</b>                                  |              |                 |  |   |                           |
| Bonds and loans:   |              |                 |  |   |                           |
| Of the Israeli Government  | 4,009        | 4,009           | 315  | -   | 4,324                     |
| Of foreign governments   | 20           | 20              | -  | -   | 20                        |
| Of Israeli financial institutions                                  | 84           | 84              | 6  | -   | 90                        |
| Of foreign financial institutions                                  | 35           | 35              | -  | 1   | 34                        |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 1,037        | 1,037           | 12   | 13  | 1,036                     |
| Of others abroad <sup>(6)</sup>                                    | 1,818        | 1,818           | 88   | 1   | 1,905                     |
| <b>Total held-to-maturity bonds<sup>(8)</sup></b>                  | <b>7,003</b> | <b>(2)7,003</b> | <b>421</b>                                       | <b>15</b>   | <b>7,409</b>              |

| Audited  |               |                                   |                  |                  |                           |
|--|---------------|-----------------------------------|------------------|------------------|---------------------------|
| December 31, 2015  |               |                                   |                  |                  |                           |
|  | Book value    | Amortized cost (in shares - cost) | Profits          | Losses           | Fair value <sup>(1)</sup> |
| In NIS millions  |               |                                   |                  |                  |                           |
| <b>(2) Available for sale securities</b>                           |               |                                   |                  |                  |                           |
| Bonds and loans:   |               |                                   |                  |                  |                           |
| Of the Israeli Government  | 15,341        | 15,079                            | 269              | 7                | 15,341                    |
| Of foreign governments   | 912           | 920                               | <sup>(9)</sup> - | 8                | 912                       |
| Of Israeli financial institutions                                  | 269           | 269                               | 3                | 3                | 269                       |
| Of foreign financial institutions                                  | 1,866         | 1,864                             | 17               | 15               | 1,866                     |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 7,529         | 7,575                             | 18               | 64               | 7,529                     |
| Of others in Israel*   | 452           | 439                               | 15               | 2                | 452                       |
| Of others abroad <sup>(7)</sup>                                    | 1,305         | 1,306                             | 7                | 8                | 1,305                     |
| Total bonds <sup>(8)</sup>   | 27,674        | 27,452                            | 329              | 107              | <sup>(2)</sup> 27,674     |
| Shares   | 1,296         | 1,294                             | 3                | 1                | <sup>(4)</sup> 1,296      |
| <b>Total available-for-sale securities</b>                         | <b>28,970</b> | <b>28,746</b>                     | <b>(3)332</b>    | <b>(3)108</b>    | <b>28,970</b>             |
| * Of which: Bonds backed by State guarantees                       | 121           | 121                               | <sup>(9)</sup> - | <sup>(9)</sup> - | 121                       |

For footnotes see next page.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## A. COMPOSITION (CONTINUED)

| Audited  |               |   |   |  |                           |
|--|---------------|---|---|--|---------------------------|
| December 31, 2015  |               |   |   |  |                           |
|  | Book value    | Amortized cost<br>(in shares -<br>cost) | Unrealized<br>gains from<br>adjustment to<br>fair value | Unrealized<br>losses from<br>adjustment to<br>fair value | Fair value <sup>(1)</sup> |
| In NIS millions  |               |   |   |  |                           |
| <b>(3) Trading Securities</b>  |               |   |   |  |                           |
| Bonds and loans:   |               |   |   |  |                           |
| Of the Israeli Government  | 2,008         | 2,014                                   | <sup>(9)</sup> –  | 6  | 2,008                     |
| Of foreign governments   | 835           | 835                                     | –   | –  | 835                       |
| Of foreign financial institutions                                      | 1             | 1                                       | –   | –  | 1                         |
| Mortgage-backed-securities (MBS) or Assets<br>-backed-securities (ABS) | 61            | 62                                      | <sup>(9)</sup> –  | 1  | 61                        |
| Of others in Israel  | 30            | 30                                      | <sup>(9)</sup> –  | <sup>(9)</sup> –   | 30                        |
| Of others abroad   | 20            | 20                                      | <sup>(9)</sup> –  | –  | 20                        |
| Total bonds  | 2,955         | 2,962                                   | –   | 7  | 2,955                     |
| Shares   | 7             | 8                                       | 1   | 2  | 7                         |
| <b>Total trading securities</b>  | <b>2,962</b>  | <b>2,970</b>                            | <b><sup>(5)</sup>1</b>                                  | <b><sup>(5)</sup>9</b>                                   | <b>2,962</b>              |
| <b>Total securities</b>  | <b>38,935</b> | <b>38,719</b>                           | <b>754</b>  | <b>132</b>   | <b>39,341</b>             |

## Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 756 million (approx. US\$ 194 million) and from the available for sale portfolio with a market value of NIS 3,667 million (approx. US\$ 940 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 803 million.
- (5) Recorded in the statement of income.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,817 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 70 million (book value).
- (8) For details regarding the transfer from the held-to-maturity bonds portfolio to the available-for-sale portfolio, see item j below.
- (9) An amount lower than NIS 1 million.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## B. AMORTIZED COST AND UNREALIZED LOSSES, ACCORDING TO THE LENGTH OF THE PERIOD AND RATE OF IMPAIRMENT OF HELD-TO-MATURITY BONDS WHICH ARE IN AN UNREALIZED LOSS POSITION - CONSOLIDATED

| Unaudited  |   |          |          |          |   |          |          |          |
|--|---|----------|----------|----------|---|----------|----------|----------|
| June 30, 2016  |   |          |          |          |   |          |          |          |
|  | Less than 12 months                               |          |          |          | More than 12 months                               |          |          |          |
|  | Unrecognized losses from adjustment to fair value |          |          |          | Unrecognized losses from adjustment to fair value |          |          |          |
|  | Amortized cost                                    | 0-20%    | 20-40%   | Total    | Amortized cost                                    | 0-20%    | 20-40%   | Total    |
| In NIS millions  |   |          |          |          |   |          |          |          |
| <b>Held-to-maturity bonds</b>                                      |   |          |          |          |   |          |          |          |
| Bonds and loans:   |   |          |          |          |   |          |          |          |
| Of foreign financial institutions                                  | -   | -        | -        | -        | 35  | 1        | -        | 1        |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 165   | 2        | -        | 2        | 228   | 2        | -        | 2        |
| <b>Total held-to-maturity bonds</b>                                | <b>165</b>  | <b>2</b> | <b>-</b> | <b>2</b> | <b>263</b>  | <b>3</b> | <b>-</b> | <b>3</b> |

| Unaudited  |   |          |          |          |   |           |          |           |
|--|---|----------|----------|----------|---|-----------|----------|-----------|
| June 30, 2015  |   |          |          |          |   |           |          |           |
|  | Less than 12 months                               |          |          |          | More than 12 months                               |           |          |           |
|  | Unrecognized losses from adjustment to fair value |          |          |          | Unrecognized losses from adjustment to fair value |           |          |           |
|  | Amortized cost                                    | 0-20%    | 20-40%   | Total    | Amortized cost                                    | 0-20%     | 20-40%   | Total     |
| In NIS millions  |   |          |          |          |   |           |          |           |
| <b>Held-to-maturity bonds</b>                                      |   |          |          |          |   |           |          |           |
| Bonds and loans:   |   |          |          |          |   |           |          |           |
| Of the Israeli Government  | 498   | (1)      | -        | (1)      | -   | -         | -        | -         |
| Of foreign financial institutions                                  | -   | -        | -        | -        | 34  | 1         | -        | 1         |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 125   | (1)      | -        | (1)      | 521   | 10        | -        | 10        |
| Of others abroad   | 483   | 6        | -        | 6        | 39  | 1         | -        | 1         |
| <b>Total held-to-maturity bonds</b>                                | <b>1,106</b>                                      | <b>6</b> | <b>-</b> | <b>6</b> | <b>594</b>  | <b>12</b> | <b>-</b> | <b>12</b> |

| Audited  |   |          |          |          |   |           |          |           |
|--|---|----------|----------|----------|---|-----------|----------|-----------|
| December 31, 2015  |   |          |          |          |   |           |          |           |
|  | Less than 12 months                               |          |          |          | More than 12 months                               |           |          |           |
|  | Unrecognized losses from adjustment to fair value |          |          |          | Unrecognized losses from adjustment to fair value |           |          |           |
|  | Amortized cost                                    | 0-20%    | 20-40%   | Total    | Amortized cost                                    | 0-20%     | 20-40%   | Total     |
| In NIS millions  |   |          |          |          |   |           |          |           |
| <b>Held-to-maturity bonds</b>                                      |   |          |          |          |   |           |          |           |
| Bonds and loans:   |   |          |          |          |   |           |          |           |
| Of foreign financial institutions                                  | -   | -        | -        | -        | 35  | 1         | -        | 1         |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 386   | 3        | -        | 3        | 427   | 10        | -        | 10        |
| Of others abroad   | 14  | (1)      | -        | (1)      | 40  | 1         | -        | 1         |
| <b>Total held-to-maturity bonds</b>                                | <b>400</b>  | <b>3</b> | <b>-</b> | <b>3</b> | <b>502</b>  | <b>12</b> | <b>-</b> | <b>12</b> |

Footnote:

(1) An amount lower than NIS 1 million.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## C. FAIR VALUE AND UNREALIZED LOSSES, ACCORDING TO THE LENGTH OF THE PERIOD AND RATE OF IMPAIRMENT OF AVAILABLE-FOR-SALE SECURITIES WHICH ARE IN AN UNREALIZED LOSS POSITION- CONSOLIDATED

| Unaudited  |                     |           |          |                     |            |           |           |
|--|---------------------|-----------|----------|---------------------|------------|-----------|-----------|
| June 30, 2016  |                     |           |          |                     |            |           |           |
|  | Less than 12 months |           |          | More than 12 months |            |           |           |
|  | Unrealized losses   |           |          | Unrealized losses   |            |           |           |
|  | Fair value          | 0-20%     | 20-40%   | Total Fair value    | 0-20%      | 20-40%    | Total     |
| In NIS millions  |                     |           |          |                     |            |           |           |
| <b>Available for sale securities</b>                               |                     |           |          |                     |            |           |           |
| Bonds and loans:   |                     |           |          |                     |            |           |           |
| Of the Israeli Government  | 3,333               | 6         | -        | 6                   | -          | -         | -         |
| Of foreign governments   | 268                 | 6         | -        | 6                   | 28         | 1         | 1         |
| Of Israeli financial institutions                                  | 11                  | (1)       | -        | (1)                 | -          | -         | -         |
| Of foreign financial institutions                                  | 397                 | 23        | -        | 23                  | 114        | 2         | 2         |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 238                 | 1         | -        | 1                   | 820        | 10        | 10        |
| Of others in Israel  | 81                  | 1         | -        | 1                   | 2          | -         | -         |
| Of others abroad   | 714                 | 9         | -        | 9                   | 8          | (1)       | (1)       |
| Total bonds  | 5,042               | 46        | -        | 46                  | 972        | 13        | 13        |
| Shares   | 13                  | 1         | -        | 1                   | 17         | (1)       | (1)       |
| <b>Total available-for-sale securities</b>                         | <b>5,055</b>        | <b>47</b> | <b>-</b> | <b>47</b>           | <b>989</b> | <b>13</b> | <b>13</b> |

| Unaudited  |                     |           |          |                     |              |           |           |
|--|---------------------|-----------|----------|---------------------|--------------|-----------|-----------|
| June 30, 2015  |                     |           |          |                     |              |           |           |
|  | Less than 12 months |           |          | More than 12 months |              |           |           |
|  | Unrealized losses   |           |          | Unrealized losses   |              |           |           |
|  | Fair value          | 0-20%     | 20-40%   | Total Fair value    | 0-20%        | 20-40%    | Total     |
| In NIS millions  |                     |           |          |                     |              |           |           |
| <b>Available for sale securities</b>                               |                     |           |          |                     |              |           |           |
| Bonds and loans:   |                     |           |          |                     |              |           |           |
| Of the Israeli Government  | 1,919               | 12        | -        | 12                  | -            | -         | -         |
| Of foreign governments   | 66                  | 1         | -        | 1                   | -            | -         | -         |
| Of Israeli financial institutions                                  | 157                 | 2         | -        | 2                   | -            | -         | -         |
| Of foreign financial institutions                                  | 345                 | 7         | -        | 7                   | 46           | 1         | 1         |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 2,758               | 20        | -        | 20                  | 1,287        | 34        | 34        |
| Of others in Israel  | 365                 | 3         | -        | 3                   | -            | -         | -         |
| Of others abroad   | 108                 | 1         | -        | 1                   | 64           | 2         | 2         |
| Total bonds  | 5,718               | 46        | -        | 46                  | 1,397        | 37        | 37        |
| Shares   | 512                 | 14        | -        | 14                  | 17           | 1         | 1         |
| <b>Total available-for-sale securities</b>                         | <b>6,230</b>        | <b>60</b> | <b>-</b> | <b>60</b>           | <b>1,414</b> | <b>38</b> | <b>38</b> |

Footnote:

(1) An amount lower than NIS 1 million.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## C. FAIR VALUE AND UNREALIZED LOSSES, ACCORDING TO THE LENGTH OF THE PERIOD AND RATE OF IMPAIRMENT OF AVAILABLE-FOR-SALE SECURITIES WHICH ARE IN AN UNREALIZED LOSS POSITION- CONSOLIDATED (CONTINUED)

| Audited  |                     |                   |          |           |                     |                   |           |       |
|--|---------------------|-------------------|----------|-----------|---------------------|-------------------|-----------|-------|
| December 31, 2015  |                     |                   |          |           |                     |                   |           |       |
|  | Less than 12 months |                   |          |           | More than 12 months |                   |           |       |
|  | Fair value          | Unrealized losses |          |           | Fair value          | Unrealized losses |           | Total |
|  |                     | 0-20%             | 20-40%   | Total     |                     | 0-20%             | 20-40%    |       |
| In NIS millions  |                     |                   |          |           |                     |                   |           |       |
| <b>Available for sale securities</b>                               |                     |                   |          |           |                     |                   |           |       |
| Bonds and loans:   |                     |                   |          |           |                     |                   |           |       |
| Of the Israeli Government  | 5,062               | 7                 | -        | 7         | -                   | -                 | -         |       |
| Of foreign governments   | 758                 | 7                 | -        | 7         | 27                  | 1                 | 1         |       |
| Of Israeli financial institutions                                  | 216                 | 3                 | -        | 3         | -                   | -                 | -         |       |
| Of foreign financial institutions                                  | 503                 | 12                | -        | 12        | 135                 | 3                 | 3         |       |
| Mortgage-backed-securities (MBS) or Assets-backed-securities (ABS) | 3,972               | 34                | -        | 34        | 1,186               | 30                | 30        |       |
| Of others in Israel  | 83                  | 2                 | -        | 2         | -                   | -                 | -         |       |
| Of others abroad   | 427                 | 8                 | -        | 8         | 8                   | (1)               | (1)       |       |
| Total bonds  | 11,021              | 73                | -        | 73        | 1,356               | 34                | 34        |       |
| Shares   | 18                  | 1                 | -        | 1         | 17                  | (1)               | (1)       |       |
| <b>Total available-for-sale securities</b>                         | <b>11,039</b>       | <b>74</b>         | <b>-</b> | <b>74</b> | <b>1,373</b>        | <b>34</b>         | <b>34</b> |       |

Footnote:

(1) An amount lower than NIS 1 million.

- D.** The securities portfolio, as of June 30, 2016, includes investments in asset backed securities, primarily investment in mortgage - backed securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed Securities - MBS", "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 12 to the financial statements as of December 31, 2015.
- E.** Most of the unrealized losses at June 30, 2016 are attributed to certain factors, including changes in market interest rate subsequent to acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or its relevant subsidiaries estimates that it is not probable that they will be able to collect all the amounts owed to them, pursuant to the investment contracts.
- Since the Bank and the relevant subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for debt securities, might not be until maturity), the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at June 30, 2016.
- F. Fair value presentation.** The balances of securities as of June 30, 2016, June 30, 2015 and December 31, 2015, include securities amounting to NIS 30,439 million, NIS 28,905 million and NIS 31,129 million, respectively, that are presented at fair value.

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

| Unaudited  |                |   |  |              |
|--|----------------|---|--|--------------|
| June 30, 2016  |                |   |  |              |
|  | Amortized cost | Unrealized gains from adjustment to fair value <sup>(1)</sup> | Unrealized losses from adjustment to fair value <sup>(1)</sup> | Fair value   |
| In NIS millions  |                |   |  |              |
| <b>1. Mortgage-backed securities (MBS):</b>                                  |                |   |  |              |
| <b>Available-for-sale securities</b>   |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities guaranteed by GNMA  | 1,548          | 18  | -  | 1,566        |
| Securities issued by FHLMC and FNMA  | 710            | 18  | -  | 728          |
| <b>Total mortgage-backed pass-through securities</b>                         | <b>2,258</b>   | <b>36</b>   | <b>-</b>   | <b>2,294</b> |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 4,804          | 73  | 8  | 4,869        |
| Other mortgage-backed securities   | 19             | -   | 2  | 17           |
| <b>Total available-for-sale other mortgage-backed securities</b>             | <b>4,823</b>   | <b>73</b>   | <b>10</b>  | <b>4,886</b> |
| <b>Total available-for-sale MBS securities</b>                               | <b>7,081</b>   | <b>109</b>  | <b>10</b>  | <b>7,180</b> |
| <b>Held-to-maturity securities</b>   |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities guaranteed by GNMA  | 33             | 3   | -  | 36           |
| Securities issued by FHLMC and FNMA  | 23             | 2   | -  | 25           |
| <b>Total mortgage-backed pass-through securities</b>                         | <b>56</b>      | <b>5</b>  | <b>-</b>   | <b>61</b>    |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 835            | 8   | 4  | 839          |
| Other mortgage-backed securities   | 36             | 4   | -  | 40           |
| <b>Total held-to-maturity other mortgage-backed securities</b>               | <b>871</b>     | <b>12</b>   | <b>4</b>   | <b>879</b>   |
| <b>Total held-to-maturity MBS securities</b>                                 | <b>927</b>     | <b>17</b>   | <b>4</b>   | <b>940</b>   |
| <b>Trading securities</b>  |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities issued by FHLMC and FNMA  | 1              | (2) <sub>-</sub>  | -  | 1            |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 54             | 1   | (2) <sub>-</sub>   | 55           |
| <b>Total mortgage-backed trading securities (MBS)</b>                        | <b>55</b>      | <b>1</b>  | <b>-</b>   | <b>56</b>    |
| <b>Total mortgage-backed securities (MBS)</b>                                | <b>8,063</b>   | <b>127</b>  | <b>14</b>  | <b>8,176</b> |
| <b>2. Asset-backed available-for-sale securities (ABS)</b>                   |                |   |  |              |
| Collateralized bonds CLO   | 385            | (2) <sub>-</sub>  | 1  | 384          |
| <b>Total asset-backed available-for-sale securities (ABS)</b>                | <b>385</b>     | <b>-</b>  | <b>1</b>   | <b>384</b>   |
| <b>Total mortgage and asset-backed securities</b>                            | <b>8,448</b>   | <b>127</b>  | <b>15</b>  | <b>8,560</b> |

Footnotes:

(1) For available for sale securities-accumulated other comprehensive income.

(2) Amount lower than NIS 1 million

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

| Unaudited  |                |   |  |              |
|--|----------------|---|--|--------------|
| June 30, 2015  |                |   |  |              |
|  | Amortized cost | Unrecognized gains from adjustment to fair value <sup>(1)</sup> | Unrecognized losses from adjustment to fair value <sup>(1)</sup> | Fair value   |
| In NIS millions  |                |   |  |              |
| <b>1. Mortgage-backed securities (MBS):</b>                                  |                |   |  |              |
| <b>Available-for-sale securities</b>   |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities guaranteed by GNMA  | 1,928          | 7   | 7  | 1,928        |
| Securities issued by FHLMC and FNMA  | 820            | 7   | 4  | 823          |
| <b>Total mortgage-backed pass-through securities</b>                         | <b>2,748</b>   | <b>14</b>   | <b>11</b>  | <b>2,751</b> |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 4,061          | 13  | 40   | 4,034        |
| Other mortgage-backed securities   | 19             | -   | 1  | 18           |
| <b>Total available-for-sale other mortgage-backed securities</b>             | <b>4,080</b>   | <b>13</b>   | <b>41</b>  | <b>4,052</b> |
| <b>Total available-for-sale MBS securities</b>                               | <b>6,828</b>   | <b>27</b>   | <b>52</b>  | <b>6,803</b> |
| <b>Held-to-maturity securities</b>   |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities guaranteed by GNMA  | 40             | 3   | -  | 43           |
| Securities issued by FHLMC and FNMA  | 29             | 2   | -  | 31           |
| <b>Total mortgage-backed pass-through securities</b>                         | <b>69</b>      | <b>5</b>  | <b>-</b>   | <b>74</b>    |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 988            | 5   | 10   | 983          |
| Other mortgage-backed securities   | 39             | 7   | -  | 46           |
| <b>Total held-to-maturity other mortgage-backed securities</b>               | <b>1,027</b>   | <b>12</b>   | <b>10</b>  | <b>1,029</b> |
| <b>Total held-to-maturity MBS securities</b>                                 | <b>1,096</b>   | <b>17</b>   | <b>10</b>  | <b>1,103</b> |
| <b>Trading securities</b>  |                |   |  |              |
| A. Mortgage pass-through securities:   |                |   |  |              |
| Securities issued by FHLMC and FNMA  | 1              | -   | -  | 1            |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 50             | 1   | <sup>(2)</sup> -   | 51           |
| <b>Total mortgage-backed trading securities (MBS)</b>                        | <b>51</b>      | <b>1</b>  | <b>-</b>   | <b>52</b>    |
| <b>Total mortgage-backed securities (MBS)</b>                                | <b>7,975</b>   | <b>45</b>   | <b>62</b>  | <b>7,958</b> |
| <b>2. Asset-backed available-for-sale securities (ABS)</b>                   |                |   |  |              |
| Collateralized bonds CLO   | 377            | -   | 2  | 375          |
| <b>Total asset-backed available-for-sale securities (ABS)</b>                | <b>377</b>     | <b>-</b>  | <b>2</b>   | <b>375</b>   |
| <b>Total mortgage and asset-backed securities</b>                            | <b>8,352</b>   | <b>45</b>   | <b>64</b>  | <b>8,333</b> |

Footnotes:

(1) For available for sale securities-accumulated other comprehensive income.

(2) Amount lower than NIS 1 million



## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

| Audited   |                |   |  |              |
|---|----------------|---|--|--------------|
| December 31, 2015   |                |   |  |              |
|   | Amortized cost | Unrealized gains from adjustment to fair value <sup>(1)</sup> | Unrealized losses from adjustment to fair value <sup>(1)</sup> | Fair value   |
| In NIS millions   |                |   |  |              |
| <b>Mortgage-backed securities (MBS):</b>  |                |   |  |              |
| <b>Available-for-sale securities</b>  |                |   |  |              |
| A. Mortgage pass-through securities:  |                |   |  |              |
| Securities guaranteed by GNMA   | 1,764          | 3   | 14   | 1,753        |
| Securities issued by FHLMC and FNMA   | 783            | 5   | 3  | 785          |
| <b>Total mortgage-backed pass-through securities</b>  | <b>2,547</b>   | <b>8</b>  | <b>17</b>  | <b>2,538</b> |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):                    |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA   | 4,618          | 10  | 44   | 4,584        |
| Other mortgage-backed securities  | 20             | -   | 2  | 18           |
| <b>Total available-for-sale other mortgage-backed securities</b>                                | <b>4,638</b>   | <b>10</b>   | <b>46</b>  | <b>4,602</b> |
| <b>Total available-for-sale MBS securities</b>  | <b>7,185</b>   | <b>18</b>   | <b>63</b>  | <b>7,140</b> |
| <b>Held-to-maturity securities</b>  |                |   |  |              |
| A. Mortgage pass-through securities:  |                |   |  |              |
| Securities guaranteed by GNMA   | 37             | 2   | -  | 39           |
| Securities issued by FHLMC and FNMA   | 26             | 2   | -  | 28           |
| <b>Total mortgage-backed pass-through securities</b>  | <b>63</b>      | <b>4</b>  | <b>-</b>   | <b>67</b>    |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):                    |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA   | 936            | 3   | 13   | 926          |
| Other mortgage-backed securities  | 38             | 5   | -  | 43           |
| <b>Total held-to-maturity other mortgage-backed securities</b>                                  | <b>974</b>     | <b>8</b>  | <b>13</b>  | <b>969</b>   |
| <b>Total held-to-maturity MBS securities</b>  | <b>1,037</b>   | <b>12</b>   | <b>13</b>  | <b>1,036</b> |
| <b>Trading securities</b>   |                |   |  |              |
| A. Mortgage pass-through securities:  |                |   |  |              |
| Securities issued by FHLMC and FNMA   | 1              | (2)_  | -  | 1            |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):                    |                |   |  |              |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA   | 61             | (2)_  | 1  | 60           |
| <b>Total mortgage-backed trading securities (MBS)</b>   | <b>62</b>      | <b>-</b>  | <b>1</b>   | <b>61</b>    |
| <b>Total mortgage-backed securities (MBS)</b>   | <b>8,284</b>   | <b>30</b>   | <b>77</b>  | <b>8,237</b> |
| <b>2. Asset-backed available-for-sale securities (ABS) and structured financial products:</b>   |                |   |  |              |
| Bonds of the CLO type   | 390            | (2)_  | 1  | 389          |
| <b>Total asset-backed available-for-sale securities (ABS) and structured financial products</b> | <b>390</b>     | <b>-</b>  | <b>1</b>   | <b>389</b>   |
| <b>Total mortgage and asset-backed securities and structured financial products</b>             | <b>8,674</b>   | <b>30</b>   | <b>78</b>  | <b>8,626</b> |

Footnotes:

(1) For available for sale securities-accumulated other comprehensive income.

(2) Amount lower than NIS 1 million

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## H. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

## ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION:

| Unaudited   |            |                     |                    |                   |
|---|------------|---------------------|--------------------|-------------------|
| June 30, 2016   |            |                     |                    |                   |
|   |            | Less than 12 months | 12 months and over |                   |
|   | Fair value | Unrealized losses   | Fair value         | Unrealized losses |
| In NIS millions   |            |                     |                    |                   |
| <b>1. Mortgage-backed securities (MBS):</b>                               |            |                     |                    |                   |
| <b>Available-for-sale securities</b>                                      |            |                     |                    |                   |
| Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |            |                     |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                   | 102        | 1                   | 593                | 7                 |
| Other MBS securities  | -          | -                   | 18                 | 2                 |
| <b>Total other mortgage-backed securities</b>                             | <b>102</b> | <b>1</b>            | <b>611</b>         | <b>9</b>          |
| <b>Total available-for-sale MBS securities</b>                            | <b>102</b> | <b>1</b>            | <b>611</b>         | <b>9</b>          |
| <b>Held-to-maturity securities</b>  |            |                     |                    |                   |
| Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |            |                     |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                   | 163        | 2                   | 226                | 2                 |
| <b>Total other mortgage-backed securities</b>                             | <b>163</b> | <b>2</b>            | <b>226</b>         | <b>2</b>          |
| <b>Total held-to-maturity MBS securities</b>                              | <b>163</b> | <b>2</b>            | <b>226</b>         | <b>2</b>          |
| <b>Total mortgage-backed securities (MBS)</b>                             | <b>265</b> | <b>3</b>            | <b>837</b>         | <b>11</b>         |
| <b>2. Asset-backed available-for-sale securities (ABS)</b>                |            |                     |                    |                   |
| Collateralized bonds CLO  | 135        | (1)                 | 210                | 1                 |
| <b>Total asset-backed available-for-sale securities (ABS)</b>             | <b>135</b> | <b>-</b>            | <b>210</b>         | <b>1</b>          |
| <b>Total mortgage and asset-backed securities</b>                         | <b>400</b> | <b>3</b>            | <b>1,047</b>       | <b>12</b>         |

Footnote:

(1) Amount lower than NIS 1 million

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## H. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

## ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION (CONTINUED):

| Unaudited  |                     |                   |                    |                   |
|--|---------------------|-------------------|--------------------|-------------------|
| June 30, 2015  |                     |                   |                    |                   |
|  | Less than 12 months |                   | 12 months and over |                   |
|  | Fair value          | Unrealized losses | Fair value         | Unrealized losses |
| In NIS millions  |                     |                   |                    |                   |
| 1. Mortgage-backed securities (MBS):   |                     |                   |                    |                   |
| <b>Available-for-sale securities</b>   |                     |                   |                    |                   |
| A. Mortgage pass through securities:   |                     |                   |                    |                   |
| Securities guaranteed by GNMA  | 1,208               | 7                 | -                  | -                 |
| Securities issued by FHLMC and FNMA  | 229                 | 4                 | -                  | -                 |
| <b>Total mortgage backed pass through securities</b>                         | <b>1,437</b>        | <b>11</b>         | <b>-</b>           | <b>-</b>          |
| B. Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS): |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 983                 | 7                 | 1,269              | 33                |
| Other MBS securities   | -                   | -                 | 18                 | 1                 |
| <b>Total other mortgage backed securities</b>                                | <b>983</b>          | <b>7</b>          | <b>1,287</b>       | <b>34</b>         |
| <b>Total available-for-sale MBS securities</b>                               | <b>2,420</b>        | <b>18</b>         | <b>1,287</b>       | <b>34</b>         |
| <b>Held-to-maturity securities</b>   |                     |                   |                    |                   |
| Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):    |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 124                 | (1)               | 511                | 10                |
| <b>Total other mortgage backed securities</b>                                | <b>124</b>          | <b>(1)</b>        | <b>511</b>         | <b>10</b>         |
| <b>Total held-to-maturity MBS securities</b>                                 | <b>124</b>          | <b>(1)</b>        | <b>511</b>         | <b>10</b>         |
| <b>Trading securities</b>  |                     |                   |                    |                   |
| Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):    |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 26                  | (1)               | 1                  | (1)               |
| <b>Total mortgage-backed trading securities (MBS)</b>                        | <b>26</b>           | <b>(1)</b>        | <b>1</b>           | <b>(1)</b>        |
| <b>Total mortgage-backed securities (MBS)</b>                                | <b>2,570</b>        | <b>18</b>         | <b>1,799</b>       | <b>44</b>         |
| 2. Asset-backed available-for-sale securities (ABS)                          |                     |                   |                    |                   |
| Collateralized bonds CLO   | 338                 | 2                 | -                  | -                 |
| <b>Total asset backed available-for-sale securities (ABS)</b>                | <b>338</b>          | <b>2</b>          | <b>-</b>           | <b>-</b>          |
| <b>Total mortgage and asset backed securities</b>                            | <b>2,908</b>        | <b>20</b>         | <b>1,799</b>       | <b>44</b>         |

Footnote:

(1) Amount lower than NIS 1 million

## 5. SECURITIES – CONSOLIDATED (CONTINUED)

## H. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

## ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION (CONTINUED):

|  | Audited             |                   |                    |                   |
|--|---------------------|-------------------|--------------------|-------------------|
|  | December 31, 2015   |                   |                    |                   |
|  | Less than 12 months |                   | 12 months and over |                   |
|  | Fair value          | Unrealized losses | Fair value         | Unrealized losses |
| In NIS millions  |                     |                   |                    |                   |
| Mortgage-Backed Securities (MBS):  |                     |                   |                    |                   |
| <b>Available-for-sale securities</b>   |                     |                   |                    |                   |
| A. Mortgage pass-through securities:   |                     |                   |                    |                   |
| Securities guaranteed by GNMA  | 1,464               | 13                | 63                 | 1                 |
| Securities issued by FHLMC and FNMA  | 224                 | 3                 | -                  | -                 |
| <b>Total mortgage-backed pass through securities</b>                         | <b>1,688</b>        | <b>16</b>         | <b>63</b>          | <b>1</b>          |
| B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS): |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 2,112               | 17                | 985                | 27                |
| Other MBS securities   | -                   | -                 | 18                 | 2                 |
| <b>Total other mortgage-backed securities</b>                                | <b>2,112</b>        | <b>17</b>         | <b>1,003</b>       | <b>29</b>         |
| <b>Total available-for-sale MBS securities</b>                               | <b>3,800</b>        | <b>33</b>         | <b>1,066</b>       | <b>30</b>         |
| <b>Held-to-maturity securities</b>   |                     |                   |                    |                   |
| Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):    |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 383                 | 3                 | 417                | 10                |
| <b>Total other mortgage-backed securities</b>                                | <b>383</b>          | <b>3</b>          | <b>417</b>         | <b>10</b>         |
| <b>Total held-to-maturity MBS securities</b>                                 | <b>383</b>          | <b>3</b>          | <b>417</b>         | <b>10</b>         |
| <b>Trading securities</b>  |                     |                   |                    |                   |
| Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):    |                     |                   |                    |                   |
| Securities issued or guaranteed by FHLMC, FNMA and GNMA                      | 48                  | 1                 | 1                  | (1)-              |
| <b>Total mortgage-backed trading securities (MBS)</b>                        | <b>48</b>           | <b>1</b>          | <b>1</b>           | <b>-</b>          |
| <b>Total mortgage-backed securities (MBS)</b>                                | <b>4,231</b>        | <b>37</b>         | <b>1,484</b>       | <b>40</b>         |
| <b>2. Asset-backed available-for-sale Securities (ABS)</b>                   |                     |                   |                    |                   |
| Collateralized bonds CLO   | 172                 | 1                 | 120                | (1)-              |
| <b>Total asset-backed available-for-sale securities (ABS)</b>                | <b>172</b>          | <b>1</b>          | <b>120</b>         | <b>-</b>          |
| <b>Total mortgage and asset backed securities</b>                            | <b>4,403</b>        | <b>38</b>         | <b>1,604</b>       | <b>40</b>         |

Footnote:

(1) Amount lower than NIS 1 million

## I. INFORMATION REGARDING IMPAIRED BONDS - CONSOLIDATED

|  | Unaudited       |               | Audited           |
|--|-----------------|---------------|-------------------|
|  | June 30, 2016   | June 30, 2015 | December 31, 2015 |
|  | In NIS millions |               |                   |
| Recorded amount of non accruing interest income impaired bonds | 126             | 24            | 25                |

- J. Bonds held in the held-to-maturity portfolio of IDB (Swiss) Bank, the stated value of which as of December 31, 2015, amounted to NIS 100 million, had been transferred to the available-for-sale portfolio in the December 31, 2015, financial statements, following the sale of the operations of the company and the intention to sell the remaining assets therein subsequently to the sale of the operations. A loss in a negligible amount was recognized as a result of the transfer.

## 6. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

**General.** Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under resale agreements.

It is noted, that Note 14 presents the details included in this Note, as well as an extended discussion thereof.

### 1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

| Unaudited   |                       |  |  |                |                          |                |
|---|-----------------------|--|--|----------------|--------------------------|----------------|
| June 30, 2016   |                       |  |  |                |                          |                |
|   | Credit to the public  |  |  |                |                          |                |
|   | Commercial            | Private<br>Individuals<br>- Housing<br>Loans | Private<br>Individuals<br>- Other<br>Loans |                | Banks and<br>Governments | Total          |
| In NIS millions   |                       |  |  |                |                          |                |
| Recorded amount of debts:   |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 62,313                | -  | <sup>(3)</sup> 975                         | 63,288         | 3,331                    | 66,619         |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | <sup>(2)</sup> 245    | 23,456                                       | -  | 23,701         | -                        | 23,701         |
| Group - other   | <sup>(2)</sup> 24,605 | 52   | <sup>(3)</sup> 23,539                      | 48,196         | 2,121                    | 50,317         |
| <b>Total debts*</b>   | <b>87,163</b>         | <b>23,508</b>                                | <b>24,514</b>                              | <b>135,185</b> | <b>5,452</b>             | <b>140,637</b> |
| * Of which:   |                       |  |  |                |                          |                |
| Restructured troubled debts   | 1,742                 | -  | 49   | 1,791          | -                        | 1,791          |
| Other Impaired debts  | 937                   | -  | 10   | 947            | -                        | 947            |
| <b>Total balance of impaired debts</b>                                | <b>2,679</b>          | <b>-</b>                                     | <b>59</b>                                  | <b>2,738</b>   | <b>-</b>                 | <b>2,738</b>   |
| Debts in arrears of 90 days or more                                   | 45                    | 300  | 62   | 407            | -                        | 407            |
| Other problematic debts   | 1,404                 | 34   | 240  | 1,678          | -                        | 1,678          |
| <b>Total Problematic debts</b>  | <b>4,128</b>          | <b>334</b>                                   | <b>361</b>                                 | <b>4,823</b>   | <b>-</b>                 | <b>4,823</b>   |
| Allowance for Credit Losses in respect of debts:                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 1,207                 | -  | <sup>(3)</sup> 18                          | 1,225          | -                        | 1,225          |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | 3                     | <sup>(4)</sup> 166                           | -  | 169            | -                        | 169            |
| Group - other   | 320                   | -  | <sup>(3)</sup> 379                         | 699            | 1                        | 700            |
| <b>Total allowance for Credit Losses</b>                              | <b>1,530</b>          | <b>166</b>                                   | <b>397</b>                                 | <b>2,093</b>   | <b>1</b>                 | <b>2,094</b>   |
| Of which: in respect of impaired debts                                | 471                   | -  | 4  | 475            | -                        | 475            |

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 63,881 million and the allowance in its respect in an amount of NIS 750 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) For details regarding changes in accounting policy in the matter of "classification of problematic debts and allowances for credit losses", see Note 1G.
- (4) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 86 million.

## 6. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### 1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED (CONTINUED)

| Unaudited   |                       |  |  |                |                          |                |
|---|-----------------------|--|--|----------------|--------------------------|----------------|
| June 30, 2015   |                       |  |  |                |                          |                |
|   | Credit to the public  |  |  |                |                          |                |
|   | Commercial            | Private<br>Individuals<br>- Housing<br>Loans | Private<br>Individuals<br>- Other<br>Loans | Total          | Banks and<br>Governments | Total          |
| In NIS millions   |                       |  |  |                |                          |                |
| Recorded amount of debts:   |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 57,774                | -  | 2,936                                      | 60,710         | 4,689                    | 65,399         |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | <sup>(2)</sup> 285    | 20,753                                       | -  | 21,038         | -                        | 21,038         |
| Group - other   | <sup>(2)</sup> 20,559 | 48   | 19,902                                     | 40,509         | 1,441                    | 41,950         |
| <b>Total debts*</b>   | <b>78,618</b>         | <b>20,801</b>                                | <b>22,838</b>                              | <b>122,257</b> | <b>6,130</b>             | <b>128,387</b> |
| * Of which:   |                       |  |  |                |                          |                |
| Restructured troubled debts   | 1,403                 | -  | 58   | 1,461          | -                        | 1,461          |
| Other Impaired debts  | 1,641                 | -  | 19   | 1,660          | -                        | 1,660          |
| <b>Total balance of impaired debts</b>                                | <b>3,044</b>          | <b>-</b>                                     | <b>77</b>                                  | <b>3,121</b>   | <b>-</b>                 | <b>3,121</b>   |
| Debts in arrears of 90 days or more                                   | 31                    | 340  | 48   | 419            | -                        | 419            |
| Other problematic debts   | 1,052                 | 37   | 216  | 1,305          | -                        | 1,305          |
| <b>Total Problematic debts</b>  | <b>4,127</b>          | <b>377</b>                                   | <b>341</b>                                 | <b>4,845</b>   | <b>-</b>                 | <b>4,845</b>   |
| Allowance for Credit Losses in respect of debts:                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 1,179                 | -  | 40   | 1,219          | 1                        | 1,220          |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | 2                     | <sup>(3)</sup> 168                           | -  | 170            | -                        | 170            |
| Group - other   | 261                   | 1  | 327  | 589            | 2                        | 591            |
| <b>Total allowance for Credit Losses</b>                              | <b>1,442</b>          | <b>169</b>                                   | <b>367</b>                                 | <b>1,978</b>   | <b>3</b>                 | <b>1,981</b>   |
| Of which: in respect of impaired debts                                | 458                   | -  | 8  | 466            | -                        | 466            |

#### Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 62,278 million and the allowance in its respect in an amount of NIS 754 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 290 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 75 million.

## 6. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### 1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED (CONTINUED)

| Audited   |                       |  |  |                |                          |                |
|---|-----------------------|--|--|----------------|--------------------------|----------------|
| December 31, 2015   |                       |  |  |                |                          |                |
|   | Commercial            | Private<br>Individuals<br>- Housing<br>Loans | Private<br>Individuals<br>- Other<br>Loans | Total          | Banks and<br>Governments | Total          |
| In NIS millions   |                       |  |  |                |                          |                |
| <b>Recorded amount of debts:</b>                                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 60,604                | -  | 2,988                                      | 63,592         | 3,168                    | 66,760         |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | <sup>(2)</sup> 231    | 21,759                                       | -  | 21,990         | -                        | 21,990         |
| Group - other   | <sup>(2)</sup> 22,633 | 49   | 21,004                                     | 43,686         | 3,102                    | 46,788         |
| <b>Total debts*</b>   | <b>83,468</b>         | <b>21,808</b>                                | <b>23,992</b>                              | <b>129,268</b> | <b>6,270</b>             | <b>135,538</b> |
| <b>* Of which:</b>  |                       |  |  |                |                          |                |
| Restructured troubled debts   | 1,681                 | -  | 51   | 1,732          | -                        | 1,732          |
| Other Impaired debts  | 1,199                 | -  | 13   | 1,212          | -                        | 1,212          |
| <b>Total balance of impaired debts</b>                                | <b>2,880</b>          | <b>-</b>                                     | <b>64</b>                                  | <b>2,944</b>   | <b>-</b>                 | <b>2,944</b>   |
| Debts in arrears of 90 days or more                                   | 29                    | 327  | 56   | 412            | -                        | 412            |
| Other problematic debts   | 944                   | 33   | 237  | 1,214          | -                        | 1,214          |
| <b>Total Problematic debts</b>  | <b>3,853</b>          | <b>360</b>                                   | <b>357</b>                                 | <b>4,570</b>   | <b>-</b>                 | <b>4,570</b>   |
| Allowance for Credit Losses in respect of debts:                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 1,211                 | -  | 47   | 1,258          | 1                        | 1,259          |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | 2                     | <sup>(3)</sup> 173                           | -  | 175            | -                        | 175            |
| Group - other   | 292                   | -  | 327  | 619            | 2                        | 621            |
| <b>Total allowance for Credit Losses</b>                              | <b>1,505</b>          | <b>173</b>                                   | <b>374</b>                                 | <b>2,052</b>   | <b>3</b>                 | <b>2,055</b>   |
| Of which: in respect of impaired debts                                | 458                   | -  | 5  | 463            | -                        | 463            |

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 63,816 million and the allowance in its respect in an amount of NIS 796 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 236 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 79 million.

## 6. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### 2. MOVEMENT IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

|  | Unaudited            |                                     |                                   |                   |           |              |
|--|----------------------|-------------------------------------|-----------------------------------|-------------------|-----------|--------------|
|  | Credit to the public |                                     |                                   | Total Governments | Banks and | Total        |
|  | Commercial           | Private Individuals - Housing Loans | Private Individuals - Other Loans |                   |           |              |
| In NIS millions  |                      |                                     |                                   |                   |           |              |
| Three months ended June 30, 2016   |                      |                                     |                                   |                   |           |              |
| Balance of allowance for credit losses, as at March 31, 2016                     | 1,667                | 171                                 | 412                               | 2,250             | 2         | 2,252        |
| Expenses (expenses reversal ) for credit loss                                    | 2                    | 5                                   | 52                                | 59                | (1)       | 58           |
| Accounting write-offs  | (75)                 | (6)                                 | (76)                              | (157)             | -         | (157)        |
| Collection of debts written-off in previous years                                | 73                   | -                                   | 43                                | 116               | -         | 116          |
| Net accounting write-offs  | (2)                  | (6)                                 | (33)                              | (41)              | -         | (41)         |
| Financial statements translation adjustments                                     | 5                    | -                                   | -                                 | 5                 | -         | 5            |
| <b>Balance of allowance for credit losses, as at June 30, 2016</b>               | <b>1,672</b>         | <b>170</b>                          | <b>431</b>                        | <b>2,273</b>      | <b>1</b>  | <b>2,274</b> |
| Of which: In respect of off-balance sheet credit instruments                     | 142                  | 4                                   | 34                                | 180               | -         | 180          |
| Three months ended June 30, 2015   |                      |                                     |                                   |                   |           |              |
| Balance of allowance for credit losses, as at March 31, 2015 <sup>(1)</sup>      | 1,570                | 172                                 | 395                               | 2,137             | 3         | 2,140        |
| Expenses (expenses reversal ) for credit loss                                    | (53)                 | 1                                   | 24                                | (28)              | -         | (28)         |
| Accounting write-offs  | (71)                 | (1)                                 | (63)                              | (135)             | -         | (135)        |
| Collection of debts written-off in previous years                                | 156                  | -                                   | 47                                | 203               | -         | 203          |
| Net accounting write-offs  | 85                   | (1)                                 | (16)                              | 68                | -         | 68           |
| Financial statements translation adjustments                                     | (14)                 | -                                   | -                                 | (14)              | -         | (14)         |
| <b>Balance of allowance for credit losses, as at June 30, 2015<sup>(1)</sup></b> | <b>1,588</b>         | <b>172</b>                          | <b>403</b>                        | <b>2,163</b>      | <b>3</b>  | <b>2,166</b> |
| Of which: In respect of off-balance sheet credit instruments                     | 146                  | 3                                   | 36                                | 185               | -         | 185          |

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - see Note 18.



## 6. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### 2. MOVEMENT IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES – CONSOLIDATED (CONTINUED)

|  | Unaudited            |                                     |                                   |                   |          |              |
|--|----------------------|-------------------------------------|-----------------------------------|-------------------|----------|--------------|
|  | Credit to the public |                                     |                                   | Total Governments | Total    |              |
|  | Commercial           | Private Individuals - Housing Loans | Private Individuals - Other Loans |                   |          |              |
| In NIS millions  |                      |                                     |                                   |                   |          |              |
| Six months ended June 30, 2016   |                      |                                     |                                   |                   |          |              |
| Balance of allowance for credit losses, as at December 31, 2015 <sup>(1)</sup> (audited) | 1,675                | 176                                 | 407                               | 2,258             | 3        | 2,261        |
| Credit loss expenses (expenses reversal)   | 16                   | 9                                   | 81                                | 106               | (2)      | 104          |
| Accounting write-offs  | (167)                | (15)                                | (148)                             | (330)             | -        | (330)        |
| Collection of debts written-off in previous years  | 152                  | -                                   | 91                                | 243               | -        | 243          |
| Net accounting write-offs  | (15)                 | (15)                                | (57)                              | (87)              | -        | (87)         |
| Financial statements translation adjustments   | (4)                  | -                                   | -                                 | (4)               | -        | (4)          |
| <b>Balance of allowance for credit losses, as at June 30, 2016</b>                       | <b>1,672</b>         | <b>170</b>                          | <b>431</b>                        | <b>2,273</b>      | <b>1</b> | <b>2,274</b> |
| Of which: In respect of off-balance sheet credit instruments                             | 142                  | 4                                   | 34                                | 180               | -        | 180          |
| Six months ended June 30, 2015   |                      |                                     |                                   |                   |          |              |
| Balance of allowance for credit losses, as at December 31, 2014 <sup>(1)</sup> (audited) | 1,545                | 263                                 | 411                               | 2,219             | 5        | 2,224        |
| Credit loss expenses (expenses reversal)   | (12)                 | 1                                   | 17                                | 6                 | (2)      | 4            |
| Accounting write-offs  | (175)                | (92)                                | (130)                             | (397)             | -        | (397)        |
| Collection of debts written-off in previous years  | 239                  | -                                   | 105                               | 344               | -        | 344          |
| Net accounting write-offs  | 64                   | (92)                                | (25)                              | (53)              | -        | (53)         |
| Financial statements translation adjustments   | (9)                  | -                                   | -                                 | (9)               | -        | (9)          |
| <b>Balance of allowance for credit losses, as at June 30, 2015<sup>(1)</sup></b>         | <b>1,588</b>         | <b>172</b>                          | <b>403</b>                        | <b>2,163</b>      | <b>3</b> | <b>2,166</b> |
| Of which: In respect of off-balance sheet credit instruments                             | 146                  | 3                                   | 36                                | 185               | -        | 185          |

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - see Note 18.

## 7. DEPOSITS FROM THE PUBLIC

### A. TYPE OF DEPOSITS ACCORDING TO LOCATION OF RAISING THE DEPOSIT AND TYPE OF DEPOSITOR

|                                       | Unaudited       |                 | Audited        |
|---------------------------------------|-----------------|-----------------|----------------|
|                                       | June 30         |                 | December 31    |
|                                       | 2016            | 2015            | 2015           |
|                                       | In NIS millions |                 |                |
| In Israel                             |                 |                 |                |
| Demand deposits:                      |                 |                 |                |
| Non-interest bearing                  | 30,162          | 29,606          | 30,726         |
| Interest bearing                      | 29,397          | 23,451          | 26,195         |
| <b>Total demand deposits</b>          | <b>59,559</b>   | <b>53,057</b>   | <b>56,921</b>  |
| Time deposits                         | 76,856          | 74,461          | 75,332         |
| <b>Total deposits in Israel*</b>      | <b>136,415</b>  | <b>127,518</b>  | <b>132,253</b> |
| * Of which:                           |                 |                 |                |
| Private individuals deposits          | 82,551          | (3)(4)77,589    | 79,163         |
| Institutional bodies deposits         | 10,793          | (2)(3)11,588    | 11,735         |
| Corporations and others deposits      | 43,071          | (2)(3)(4)38,341 | 41,355         |
| <b>Outside Israel <sup>(1)</sup></b>  |                 |                 |                |
| Demand deposits:                      |                 |                 |                |
| Non-interest bearing                  | 4,369           | 5,342           | 4,069          |
| Interest bearing                      | 13,653          | 12,620          | 13,956         |
| <b>Total demand deposits</b>          | <b>18,022</b>   | <b>17,962</b>   | <b>18,025</b>  |
| Time deposits                         | 7,550           | 6,278           | 7,126          |
| <b>Total deposits outside Israel</b>  | <b>25,572</b>   | <b>24,240</b>   | <b>25,151</b>  |
| <b>Total deposits from the public</b> | <b>161,987</b>  | <b>151,758</b>  | <b>157,404</b> |

Notes:

(1) Not including balances classified as assets and liabilities held for sale, see Note 18.

(2) Reclassified - following the reexamination of the applicability of the definition of "institutional body" to certain entities.

(3) Reclassified - following classification in a subsidiary.

(4) Reclassified - sorting from private individual to corporations.

## 7. DEPOSITS FROM THE PUBLIC (CONTINUED)

### B. DEPOSITS FROM THE PUBLIC ACCORDING TO SIZE, ON A CONSOLIDATED BASIS

|                    | Unaudited       |                | Audited        |
|--------------------|-----------------|----------------|----------------|
|                    | June 30         |                | December 31    |
|                    | 2016            | 2015           | 2015           |
| Deposit limit      | Balance         |                |                |
| In NIS millions    | In NIS millions |                |                |
| Up to 1            | 63,902          | 59,231         | 61,090         |
| Over 1 up to 10    | 48,535          | 44,646         | 46,615         |
| Over 10 up to 100  | 23,920          | 22,541         | 23,305         |
| Over 100 up to 500 | 14,849          | 14,626         | 17,595         |
| Over 500           | 10,781          | 10,714         | 8,799          |
| <b>Total</b>       | <b>161,987</b>  | <b>151,758</b> | <b>157,404</b> |

## 8. EMPLOYEE BENEFITS – CONSOLIDATED

**A. General – reclassification.** Beginning with the period as from January 1, 2015, the Bank implements the guidelines of the Supervisor of Banks in the matter of employee rights. During the preparation of the financial statements as of June 30, 2016, the presentation of the data has been improved and the comparative data for June 30, 2015, has been reclassified, wherever required.

### B. DETAILS REGARDING THE BENEFITS

|   | Unaudited       |              | Audited      |
|---|-----------------|--------------|--------------|
|   | June 30         |              | December 31  |
|   | 2016            | 2015         | 2015         |
|   | in NIS millions |              |              |
| <b>Severance pay:</b>   |                 |              |              |
| The liability amount  | 3,646           | 3,411        | 3,420        |
| Fair value of the program's assets                                      | 2,295           | 2,381        | 2,307        |
| <b>Excess liabilities over the program's assets</b>                     | <b>1,351</b>    | <b>1,030</b> | <b>1,113</b> |
| <b>Excess liabilities included in the item "other liabilities"</b>      | <b>1,353</b>    | <b>1,030</b> | <b>1,117</b> |
| <b>Excess assets of the program included in the item "other assets"</b> | <b>2</b>        | <b>-</b>     | <b>4</b>     |
| <b>Amount that included in the other liabilities item:</b>              |                 |              |              |
| Long-service ("jubilee") awards   | 441             | 429          | 439          |
| Post retirement benefits to retirees                                    | 826             | 788          | 762          |
| Vacation  | 172             | 174          | 149          |
| Illness   | 8               | 6            | 7            |
| <b>Total Excess liabilities included in the other liabilities item</b>  | <b>2,800</b>    | <b>2,427</b> | <b>2,474</b> |
| Of which – in respect of benefits to employees abroad                   | 101             | 129          | 106          |
| <b>Excess assets of the program included in the item "other assets"</b> | <b>2</b>        | <b>-</b>     | <b>4</b>     |

## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

## C. DEFINED BENEFIT PLAN

## 1. COMMITMENT AND FINANCING STATUS

## 1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

|   | Unaudited                             |              |                                  |            |                                       |              |                                  |            | Audited                               |                                  |
|---|---------------------------------------|--------------|----------------------------------|------------|---------------------------------------|--------------|----------------------------------|------------|---------------------------------------|----------------------------------|
|   | For the three months ended June 30,   |              |                                  |            | For the six months ended June 30,     |              |                                  |            | For the year ended December 31,       |                                  |
|   | 2016                                  | 2015         | 2016                             | 2015       | 2016                                  | 2015         | 2016                             | 2015       | 2015                                  |                                  |
|   | Severance pay, retirement and pension |              | Post retirement retiree benefits |            | Severance pay, retirement and pension |              | Post retirement retiree benefits |            | Severance pay, retirement and pension | Post retirement retiree benefits |
| in NIS millions   |                                       |              |                                  |            |                                       |              |                                  |            |                                       |                                  |
| Commitment in respect of anticipated benefits at the beginning of the period                                    | 3,601                                 | 3,725        | 808                              | 907        | 3,420                                 | 3,464        | 762                              | 808        | 3,464                                 | 808                              |
| Cost of service   | 32                                    | 34           | 2                                | 2          | 66                                    | 67           | 3                                | 2          | 136                                   | 15                               |
| Cost of interest  | 29                                    | 32           | 7                                | 11         | 59                                    | 62           | 15                               | 16         | 118                                   | 32                               |
| Actuarial loss (income)   | 11                                    | (309)        | 14                               | (120)      | 184                                   | (70)         | 59                               | (24)       | (72)                                  | (45)                             |
| Changes in foreign currency exchange rates  | 4                                     | (12)         | (2)                              | (2)        | (3)                                   | (7)          | (1)                              | (1)        | 1                                     | (2)                              |
| Benefits paid   | (31)                                  | (59)         | (5)                              | (10)       | (80)                                  | (105)        | (12)                             | (13)       | (227)                                 | (32)                             |
| Reductions, settlements, special and contractual benefits in respect of dismissals including structural changes | -                                     | -            | -                                | -          | -                                     | -            | -                                | -          | -                                     | (16)                             |
| <b>Commitment at the end of the period in respect of anticipated benefits</b>                                   | <b>3,646</b>                          | <b>3,411</b> | <b>826</b>                       | <b>788</b> | <b>3,646</b>                          | <b>3,411</b> | <b>826</b>                       | <b>788</b> | <b>3,420</b>                          | <b>762</b>                       |
| <b>Commitment at the end of the period in respect of accumulated benefits<sup>(1)</sup></b>                     | <b>2,968</b>                          | <b>2,782</b> | <b>826</b>                       | <b>784</b> | <b>2,968</b>                          | <b>2,782</b> | <b>826</b>                       | <b>784</b> | <b>2,883</b>                          | <b>762</b>                       |

Footnotes:

(1) The obligation in respect of a cumulative benefit differs from the obligation in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.

(2) Amount lower than NIS 1 million

## 1.2 CHANGE IN FAIR VALUE OF THE PLAN'S ASSETS AND FINANCING STATUS OF THE PLAN

|   | Unaudited                           |                |                                   |                | Audited                        |
|---|-------------------------------------|----------------|-----------------------------------|----------------|--------------------------------|
|   | For the three months ended June 30, |                | For the six months ended June 30, |                | For the year ended December 31 |
|   | 2016                                | 2015           | 2016                              | 2015           | 2015                           |
| Severance pay, retirement and pension   |                                     |                |                                   |                |                                |
| in NIS millions   |                                     |                |                                   |                |                                |
| Fair value of the program's assets at the beginning of the period             | 2,280                               | 2,441          | 2,307                             | 2,393          | 2,393                          |
| Actual return on the program's assets   | 23                                  | (33)           | 25                                | 38             | 24                             |
| Changes in foreign currency exchange rates                                    | 3                                   | (8)            | (2)                               | (4)            | 1                              |
| Deposits by the Bank to the plan  | 16                                  | 8              | 24                                | 17             | 38                             |
| Benefits paid   | (27)                                | (27)           | (59)                              | (63)           | (149)                          |
| <b>Fair value of the program's assets at the end of the period</b>            | <b>2,295</b>                        | <b>2,381</b>   | <b>2,295</b>                      | <b>2,381</b>   | <b>2,307</b>                   |
| <b>Financing status - liability, net, recognized at the end of the period</b> | <b>(1,351)</b>                      | <b>(1,030)</b> | <b>(1,351)</b>                    | <b>(1,030)</b> | <b>(1,113)</b>                 |

## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

## C. DEFINED BENEFIT PLAN (CONTINUED)

## 1. COMMITMENT AND FINANCING STATUS (CONTINUED)

## 1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

|  | Unaudited                             |                          |                  |                                       | Audited                          |              |
|--|---------------------------------------|--------------------------|------------------|---------------------------------------|----------------------------------|--------------|
|  | June 30                               |                          | December 31      |                                       |                                  |              |
|  | 2016                                  | 2015                     | 2016             | 2015                                  | 2015                             |              |
|  | Severance pay, retirement and pension | Post retirement benefits | retiree benefits | Severance pay, retirement and pension | Post retirement retiree benefits |              |
| in NIS millions  |                                       |                          |                  |                                       |                                  |              |
| Amounts recognized in the item "other assets"            | 2                                     | -                        | -                | -                                     | 4                                | -            |
| Amounts recognized in the item "other liabilities"       | (1,353)                               | (1,030)                  | (826)            | (788)                                 | (1,117)                          | (762)        |
| <b>Net liability recognized at the end of the period</b> | <b>(1,351)</b>                        | <b>(1,030)</b>           | <b>(826)</b>     | <b>(788)</b>                          | <b>(1,113)</b>                   | <b>(762)</b> |

## 1.4 AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME, BEFORE TAX EFFECT

|   | Unaudited                             |                          |                  |                                       | Audited                          |              |
|---|---------------------------------------|--------------------------|------------------|---------------------------------------|----------------------------------|--------------|
|   | June 30                               |                          | December 31      |                                       |                                  |              |
|   | 2016                                  | 2015                     | 2016             | 2015                                  | 2015                             |              |
|   | Severance pay, retirement and pension | Post retirement benefits | retiree benefits | Severance pay, retirement and pension | Post retirement retiree benefits |              |
| in NIS millions   |                                       |                          |                  |                                       |                                  |              |
| Actuarial loss, net   | (482)                                 | (234)                    | (160)            | (121)                                 | (298)                            | (105)        |
| Net liability in respect of the transition <sup>(1)</sup>         | (125)                                 | (125)                    | (10)             | (24)                                  | (125)                            | (10)         |
| Net cost (credit) in respect of prior service                     | (2)                                   | (3)                      | 7                | 7                                     | (2)                              | 7            |
| <b>Closing balances of accumulated other comprehensive income</b> | <b>(609)</b>                          | <b>(362)</b>             | <b>(163)</b>     | <b>(138)</b>                          | <b>(425)</b>                     | <b>(108)</b> |

Footnote:

(1) Stems from the change in the discount rate in calculating the provisions in respect of employee rights, at date of the initial implementation of the directives.

## 1.5 PLANS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE PLAN'S ASSETS

| NOT YEARS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE YEAR'S ASSETS |         |       | December 31 |
|---|---------|-------|-------------|
|   | June 30 |       | 31          |
|   | 2016    | 2015  | 2015        |
| Severance pay, retirement and pension   |         |       |             |
| in NIS millions   |         |       |             |
| Commitment in respect of anticipated benefits   | 3,513   | 3,280 | 3,297       |
| Commitment in respect of cumulative benefits  | 2,854   | 2,687 | 2,778       |
| Fair value of the program's assets  | 2,160   | 2,252 | 2,180       |

## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

## C. DEFINED BENEFIT PLAN (CONTINUED)

## 1. COMMITMENT AND FINANCING STATUS (CONTINUED)

## 1.6 PLANS IN WHICH THE COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS EXCEEDS THE PLAN'S ASSETS

|   | Unaudited                             |       | Audited     |
|---|---------------------------------------|-------|-------------|
|   | June 30                               |       | December 31 |
|   | 2016                                  | 2015  | 2015        |
|   | Severance pay, retirement and pension |       |             |
|   | in NIS millions                       |       |             |
| Commitment in respect of anticipated benefits | 3,513                                 | 3,408 | 3,297       |
| Fair value of the program's assets            | 2,160                                 | 2,379 | 2,180       |

## 2. EXPENSE FOR THE PERIOD

## 2.1 COMPONENTS OF NET BENEFIT COSTS RECOGNIZED IN THE STATEMENT OF INCOME IN RESPECT OF DEFINED BENEFITS PENSION

## PLANS AND A DEFINED DEPOSIT

|  | Unaudited                           |                  |                                   |                        | Audited                         |
|--|-------------------------------------|------------------|-----------------------------------|------------------------|---------------------------------|
|  | For the three months ended June 30, |                  | For the six months ended June 30, |                        | For the year ended December, 31 |
|  | 2016                                | 2015             | 2016                              | 2015                   | 2015                            |
|  | in NIS millions                     |                  |                                   |                        |                                 |
| Severance pay, retirement and pension payments   |                                     |                  |                                   |                        |                                 |
| Cost of service  | 32                                  | 34               | 66                                | 67                     | 136                             |
| Cost of interest   | 29                                  | 32               | 59                                | 62                     | 118                             |
| Anticipated return on assets of the plan   | (19)                                | (25)             | (38)                              | (52)                   | (111)                           |
| Amortization of unrecognized amounts:  |                                     |                  |                                   |                        |                                 |
| Net actuarial loss   | 8                                   | 3                | 13                                | 2                      | 10                              |
| Cost of prior service  | (1) <sub>L</sub>                    | (1) <sub>L</sub> | (1) <sub>L</sub>                  | (1) <sub>L</sub>       | 1                               |
| <b>Total amortization of unrecognized amounts</b>  | <b>8</b>                            | <b>3</b>         | <b>13</b>                         | <b>2</b>               | <b>11</b>                       |
| <b>Total net cost of benefits</b>  | <b>50</b>                           | <b>44</b>        | <b>100</b>                        | <b>79</b>              | <b>154</b>                      |
| <b>Total expense regarding defined deposits pension plans</b>                            | <b>34</b>                           | <b>31</b>        | <b>71</b>                         | <b>63</b>              | <b>144</b>                      |
| <b>Total expenses included in respect Severance pay, retirement and pension payments</b> | <b>84</b>                           | <b>75</b>        | <b>171</b>                        | <b>142</b>             | <b>298</b>                      |
| Severance pay, retirement and pension payments   |                                     |                  |                                   |                        |                                 |
| Cost of service  | 2                                   | 2                | 3                                 | 2                      | 15                              |
| Cost of interest   | 7                                   | 11               | 15                                | 16                     | 32                              |
| Amortization of unrecognized amounts:  |                                     |                  |                                   |                        |                                 |
| Net actuarial loss   | 2                                   | 3                | 4                                 | 3                      | 6                               |
| Cost of prior service  | (1) <sub>L</sub>                    | (1)              | (1) <sub>L</sub>                  | (1)                    | (1)                             |
| <b>Total amortization of unrecognized amounts</b>  | <b>2</b>                            | <b>2</b>         | <b>4</b>                          | <b>(1)<sub>2</sub></b> | <b>5</b>                        |
| Other, including loss from reduction or settlement including structural changes          | -                                   | -                | -                                 | -                      | (4)                             |
| <b>Total net cost of benefits</b>  | <b>11</b>                           | <b>15</b>        | <b>22</b>                         | <b>20</b>              | <b>48</b>                       |
| <b>Total expenses included in respect Severance pay, retirement and pension payments</b> | <b>95</b>                           | <b>90</b>        | <b>193</b>                        | <b>162</b>             | <b>346</b>                      |

Footnote:

(1) Amount lower than NIS 1 million.

## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

## C. DEFINED BENEFIT PLAN (CONTINUED)

## 2. EXPENSE FOR THE PERIOD (CONTINUED)

## 2.2 CHANGES IN ASSETS OF THE PLAN AND IN THE COMMITMENT FOR BENEFITS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

|  | Unaudited  |                  |                                     |              |  |                  |                                     |             | Audited  |   |
|--|--|------------------|-------------------------------------|--------------|--|------------------|-------------------------------------|-------------|--|---|
|  | For the three months ended June 30,                  |                  |                                     |              | For the six months ended June 30,                    |                  |                                     |             | For the year ended December, 31                            |   |
|  | 2016   | 2015             | 2016                                | 2015         | 2016   | 2015             | 2016                                | 2015        | 2015   |   |
|  | Severance pay,<br>retirement and<br>pension payments |                  | Post retirement<br>retiree benefits |              | Severance pay,<br>retirement and<br>pension payments |                  | Post retirement<br>retiree benefits |             | Severance<br>pay,<br>retirement<br>and pension<br>payments | Post<br>retirement<br>retiree<br>benefits |
| in NIS millions  |  |                  |                                     |              |  |                  |                                     |             |  |   |
| Net actuarial loss for the year  | 7  | 44               | 14                                  | (3)          | 197  | 239              | 59                                  | 93          | 310  | 86  |
| Amortization of actuarial loss   | (8)  | (3)              | (2)                                 | (3)          | (13)   | (2)              | (4)                                 | (3)         | (9)  | (11)                                      |
| Amortization of credit (cost) in<br>respect of prior service   | (1) <sub>L</sub>                                     | (1) <sub>L</sub> | (1) <sub>L</sub>                    | 1            | (1) <sub>L</sub>                                     | (1) <sub>L</sub> | (1) <sub>L</sub>                    | 1           | (1)  | 1   |
| Amortization of net liability in<br>respect of the transition  | -  | (295)            | -                                   | (117)        | -  | (295)            | -                                   | (117)       | (295)  | (131)                                     |
| Changes in foreign currency<br>exchange rates  | 1  | (1)              | (1) <sub>L</sub>                    | -            | (1) <sub>L</sub>                                     | (1)              | (1) <sub>L</sub>                    | -           | (1)  | (1) <sub>L</sub>                          |
| <b>Total recognized in<br/>other comprehensive<br/>income</b>  | <b>-</b>   | <b>(255)</b>     | <b>12</b>                           | <b>(122)</b> | <b>184</b>   | <b>(59)</b>      | <b>55</b>                           | <b>(26)</b> | <b>4</b>   | <b>(55)</b>                               |
| <b>Total net cost of<br/>benefits<sup>(2)</sup></b>  | <b>50</b>  | <b>44</b>        | <b>11</b>                           | <b>15</b>    | <b>100</b>   | <b>79</b>        | <b>22</b>                           | <b>20</b>   | <b>154</b>   | <b>48</b>                                 |
| <b>Total amount recognized<br/>in net cost of benefits<br/>and in other<br/>comprehensive income</b> | <b>50</b>  | <b>(211)</b>     | <b>23</b>                           | <b>(107)</b> | <b>284</b>   | <b>20</b>        | <b>77</b>                           | <b>(6)</b>  | <b>158</b>   | <b>(7)</b>                                |

Footnotes:

(1) Amount lower than NIS 1 million

(2) See item 2.1 above.

## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

### C. DEFINED BENEFIT PLAN (CONTINUED)

#### 2. EXPENSE FOR THE PERIOD (CONTINUED)

2.3 ESTIMATE OF AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME EXPECTED TO BE AMORTIZED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME TO THE STATEMENT OF INCOME DURING THE SECOND HALF OF 2016 AS AN EXPENSE, BEFORE TAX EFFECT

|  | Unaudited                             |                                  |
|--|---------------------------------------|----------------------------------|
|  | July - December 2016                  |                                  |
|  | Severance pay, retirement and pension | Post retirement retiree benefits |
|  | in NIS millions                       |                                  |
| Net actuarial loss   | 17                                    | 6                                |
| Net cost in respect of prior service   | 1                                     | (1)                              |
| <b>Total amount expected to be amortized from other comprehensive income</b> | <b>18</b>                             | <b>5</b>                         |

### 3. ASSUMPTIONS

3.1 ASSUMPTIONS ON THE BASIS OF A WEIGHTED AVERAGE USED IN DETERMINING THE COMMITMENT IN RESPECT OF THE BENEFIT AND IN MEASURING THE NET COST OF THE BENEFIT

3.1.1 Principal assumptions used in determining the commitment in respect of the benefit

|               | Unaudited                             |             | Audited       |             | Unaudited                        |               | Audited     |      |
|---------------|---------------------------------------|-------------|---------------|-------------|----------------------------------|---------------|-------------|------|
|               | June 30                               |             | December 31   |             | June 30                          |               | December 31 |      |
|               | 2016                                  | 2015        | 2015          | 2016        | 2015                             | 2015          | 2016        | 2015 |
|               | Severance pay, retirement and pension |             |               |             | Post retirement retiree benefits |               |             |      |
| Discount rate | 1.37%-2.00%                           | 1.99%-2.51% | 1.76% - 2.49% | 1.07%-2.07% | 1.64%-2.61%                      | 1.45% - 2.59% |             |      |

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

|               | Unaudited                             |             | Audited     |             | Unaudited                        |             | Audited     |      |
|---------------|---------------------------------------|-------------|-------------|-------------|----------------------------------|-------------|-------------|------|
|               | June 30                               |             | December 31 |             | June 30                          |             | December 31 |      |
|               | 2016                                  | 2015        | 2015        | 2016        | 2015                             | 2015        | 2016        | 2015 |
|               | Severance pay, retirement and pension |             |             |             | Post retirement retiree benefits |             |             |      |
| Discount rate | 1.48%-2.49%                           | 1.10%-2.34% | 1.80%-2.51% | 1.15%-2.59% | 0.78%-2.43%                      | 1.46%-2.43% |             |      |



## 8. EMPLOYEE BENEFITS – CONSOLIDATED (CONTINUED)

### C. DEFINED BENEFIT PLAN (CONTINUED)

#### 3. ASSUMPTIONS

##### 3.2 EFFECT OF A ONE PERCENTAGE POINT CHANGE ON THE COMMITMENT FOR ANTICIPATED BENEFITS, BEFORE THE TAX EFFECT

| Sensitivity analysis of the effect of a one percentage point change on the commitment for authorized benefits, before the tax effect |                                       |      |         |                                  |      |         |                                       |      |         |                                  |      |         |
|--|---------------------------------------|------|---------|----------------------------------|------|---------|---------------------------------------|------|---------|----------------------------------|------|---------|
|  | Unaudited                             |      | Audited | Unaudited                        |      | Audited | Unaudited                             |      | Audited | Unaudited                        |      | Audited |
|  | Increase of one percentage point      |      |         |                                  |      |         | Decrease of one percentage point      |      |         |                                  |      |         |
|  | Severance pay, retirement and pension |      |         | Post retirement retiree benefits |      |         | Severance pay, retirement and pension |      |         | Post retirement retiree benefits |      |         |
|  | December                              |      |         | December                         |      |         | December                              |      |         | December                         |      |         |
|  | June 30                               |      | 31      | June 30                          |      | 31      | June 30                               |      | 31      | June 30                          |      | 31      |
|  | 2016                                  | 2015 | 2015    | 2016                             | 2015 | 2015    | 2016                                  | 2015 | 2015    | 2016                             | 2015 | 2015    |
|  | in NIS millions                       |      |         |                                  |      |         |                                       |      |         |                                  |      |         |
| Discount rate  | 296                                   | 286  | 321     | 88                               | 85   | 83      | 296                                   | 290  | 336     | 88                               | 85   | 84      |

The said sensitivity test relates to the Bank, and to MDB, which comprise over 90% of the liability in respect of an anticipated benefit.

#### 4. CASH FLOW

##### 4.1 DEPOSITS

|          | Unaudited                                      |      |                                     |                                   |      | Audited                         |
|----------|--|------|-------------------------------------|-----------------------------------|------|---------------------------------|
|          | Forecast <sup>(1)</sup>                        |      | Actual deposits                     |                                   |      |                                 |
|          |  |      | For the three months ended June 30, | For the six months ended June 30, |      | For the year ended December, 31 |
|          | 2016   | 2016 | 2015                                | 2016                              | 2015 | 2015                            |
|          | Severance pay, retirement and pension payments |      |                                     |                                   |      |                                 |
|          | in NIS millions                                |      |                                     |                                   |      |                                 |
| deposits | 21   | 15   | 9                                   | 23                                | 18   | 38                              |

Footnote:

(1) Assessment of expected deposits with defined benefit pension plans during balance in 2016.

**D. Approach made to certain employees on the background of the passing of the Remuneration for Officers of Financial Corporations Act.** At the end of May 2016, the Bank approached a group of employees, who are not officers of the Bank but having a long service period and earning a high salary, and which may be affected by the limitations determined in the Act. This group was offered early retirement and enlarged severance pay (see also Note 1D above).

## 9. CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS

- (a) **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines. The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the directives of the Supervisor of Banks and according to the time schedules published by him, and the Bank is acting toward its implementation.

- (b) **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans. This requirement is applied gradually in equal quarterly installments, over eight consecutive quarters, starting on April 1, 2015 and until April 1, 2017.

The said requirement will increase the total minimum equity capital requirement and the total capital by approx. 0.16% (for the whole period).

- (c) **Assessment of the effect of implementing the amended instructions in the matter of "capital requirements in respect of exposure to central counterparties".** The amendments in this respect apply as from January 1, 2017 and thereafter. The Bank estimates that the effect of the initial implementation, in June 30, 2016 terms, would be negligible (a decrease of approx. 0.019%, in the ratio of Common Equity Tier 1. In the event that the Tel Aviv Stock Exchange Ltd. would not be recognized as a central qualified counterparty, the effect in terms of June 30, 2016 will amount to a reduction of 0.065%).

- (d) **Deduction from capital in respect of a deferred tax asset.** A revision was published on April 4, 2016 to the FAQ file of the Supervisor of Banks regarding the implementation of Proper Conduct of Banking Business Directive in the matter of measurement and capital adequacy, intended to clarify the manner of treatment of the payroll tax component in everything relating to the computation of the capital requirements and deduction from capital in respect of a deferred tax asset. According to the clarification, when an banking corporation reaches the conclusion that in the circumstances existing at the reporting date, the deferred tax asset in the amount of the payroll tax included in the books of the bank is virtually certain, then it is possible not to apply the minimum deduction stated in Section 13 of the Directive on that part of this deferred tax asset. For this purpose, the bank shall be permitted to apply the minimum deduction test on the net amount of deferred taxes, after deducting the said payroll tax. The said deferred tax asset, which had not been deducted from capital, shall be averaged as a risk asset at the rate of 250%. The Bank is applying the guidelines since date of publication, by way of now onwards method with no restatement of the comparative data and subject to the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299. The implementation of the guidelines increased the capital ratio by a non-material rate (approx. 0.09%..

## 9. CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

### E. CAPITAL FOR CALCULATING RATIO OF CAPITAL

|  | Unaudited       |               | Audited       |
|--|-----------------|---------------|---------------|
|  | June 30,        |               | December 31,  |
|  | 2016            | 2015          | 2015          |
|  | in NIS millions |               |               |
| Common equity tier 1 after deductions      | 14,113          | 13,353        | 13,549        |
| Additional tier 1 capital after deductions | 1,068           | 1,247         | 1,247         |
| Tier 1 capital                             | 15,181          | 14,600        | 14,796        |
| Tier 2 capital after deductions            | 5,236           | 5,683         | 5,610         |
| <b>Total capital</b>                       | <b>20,417</b>   | <b>20,283</b> | <b>20,406</b> |

### F. WEIGHTED RISK ASSETS BALANCE

|   | Unaudited       |                | Audited        |
|---|-----------------|----------------|----------------|
|   | June 30,        |                | December 31,   |
|   | 2016            | 2015           | 2015           |
|   | in NIS millions |                |                |
| Credit risk                               | 131,477         | 123,778        | 126,907        |
| Market Risk                               | 3,143           | 2,677          | 2,435          |
| CVA risk                                  | 1,334           | 1,230          | 788            |
| Operational risk                          | 12,106          | 12,404         | 12,330         |
| <b>Total weighted risk assets balance</b> | <b>148,060</b>  | <b>140,089</b> | <b>142,460</b> |

## 9. CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

### G. RATIO OF CAPITAL RISK ASSETS

|  | Unaudited           | Audited             |                     |
|--|---------------------|---------------------|---------------------|
|  | June 30,            | December 31,        |                     |
|  | 2016                | 2015                | 2015                |
|  | In %                |                     |                     |
| A. Consolidated  |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 9.5                 | 9.5                 | 9.5                 |
| Ratio of total capital to risk assets  | 13.8                | 14.5                | 14.3                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | <sup>(4)</sup> 9.1  | <sup>(4)</sup> 9.0  | <sup>(4)</sup> 9.1  |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(4)</sup> 12.6 | <sup>(4)</sup> 12.5 | <sup>(4)</sup> 12.6 |
| B. Significant subsidiaries  |                     |                     |                     |
| 1. Mercantile Discount Bank LTD. and its consolidated companies                    |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 10.7                | 10.4                | 10.6                |
| Ratio of total capital to risk assets  | 13.7                | 13.8                | 14.0                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | <sup>(4)</sup> 9.1  | <sup>(4)</sup> 9.0  | <sup>(4)</sup> 9.1  |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(4)</sup> 12.6 | <sup>(4)</sup> 12.5 | <sup>(4)</sup> 12.6 |
| 2. Discount Bakcorp Inc. <sup>(1)</sup>  |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 13.1                | 12.5                | 12.8                |
| Ratio of total capital to risk assets  | 14.1                | 13.6                | 13.9                |
| Ratio of minimum common equity tier 1 required in accordance with local regulation | <sup>(2)</sup> 4.5  | <sup>(2)</sup> 4.5  | <sup>(2)</sup> 4.5  |
| Minimum total capital adequacy ratio required in accordance with local regulation  | <sup>(2)</sup> 8.0  | <sup>(2)</sup> 8.0  | <sup>(2)</sup> 8.0  |
| 3. Israel Credit Cards LTD.  |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 15.0                | 14.7                | 13.7                |
| Ratio of total capital to risk assets  | 16.4                | 16.6                | 15.4                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | 9.0                 | 9.0                 | 9.0                 |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(3)</sup> 12.5 | <sup>(3)</sup> 12.5 | <sup>(3)</sup> 12.5 |

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) Beginning on January 1, 2015, IDB New York became subject to new Basle III capital rules based on the final rules published by the FRB. Capital ratios as of January 1, 2015 are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) In view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) With an addition of 0.1% (June 30, 2015: 0.02% December 31, 2015 0.06%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

## 9. CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

### H. THE EFFECT OF THE TRANSITIONAL INSTRUCTIONS ON THE RATIO OF COMMON EQUITY TIER 1

|   | Unaudited  | Audited      |            |
|---|------------|--------------|------------|
|   | June 30,   | December 31, |            |
|   | 2016       | 2015         | 2015       |
|   | In %       |              |            |
| Ratio of common equity tier 1 to risk assets before implementation of the effect of the provisional instructions in directive No.299 <sup>(1)</sup> | 9.3        | 9.2          | 9.2        |
| Effect of the provisional instructions  | 0.2        | 0.3          | 0.3        |
| <b>Ratio of common equity tier 1 to risk assets after implementation of the effect of the provisional instructions in directive No.299</b>          | <b>9.5</b> | <b>9.5</b>   | <b>9.5</b> |

Footnote:

(1) Including the effect of adopting the U.S. GAAP in the matter of employee rights.

- 2. Leverage ratio according to Directives of the Supervisor of Banks** - Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

**General.** In accordance with an amendment to the Reporting to the Public Directives, commencing from the report for the second quarter of 2015, banking corporations and credit card companies in Israel are required to include in their reports a disclosure regarding the leverage ratio. Concurrently, Proper Conduct of Banking Business Directive No. 218, regarding "Leverage Ratio", entered into effect on April 1, 2015. The Directive takes effect on January 1, 2018. Notwithstanding the above, a banking corporation, which on date of publication of the Directive matched the minimum leverage ratio, shall not fall below the minimum determined by the Directive.

|   | Unaudited       | Audited  |         |
|---|-----------------|----------|---------|
|   | June 30,        | June 30, |         |
|   | 2016            | 2015     | 2016    |
|   | in NIS millions |          |         |
| A. Consolidated   |                 |          |         |
| Tier 1 capital  | 15,181          | 14,600   | 14,796  |
| Total exposures   | 231,935         | 222,665  | 225,950 |
|   | In %            | In %     |         |
| Leverage ratio  | 6.5             | 6.6      | 6.5     |
| Leverage ratio required by the Supervisor of Banks              | 5.0             | 5.0      | 5.0     |
| B. Significant subsidiaries                                     |                 |          |         |
| 1. Mercantile Discount Bank LTD. and its consolidated companies |                 |          |         |
| Leverage ratio  | 6.6             | 6.7      | 6.6     |
| Leverage ratio required by the Supervisor of Banks              | 5.0             | 5.0      | 5.0     |
| 2. Discount Bakcorp Inc.  |                 |          |         |
| Leverage ratio  | 9.5             | 8.4      | 9.2     |
| Leverage ratio required by the Supervisor of Banks              | 4.0             | 4.0      | 4.0     |
| 3. Israel Credit Cards LTD.                                     |                 |          |         |
| Leverage ratio  | 10.4            | 10.1     | 9.2     |
| Leverage ratio required by the Supervisor of Banks              | 5.0             | 5.0      | 5.0     |

## 9. CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

**3. Liquidity coverage ratio according to Directives of the Supervisor of Banks<sup>(1)</sup>** - Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

**General.** Commencing from the report for the second quarter of 2015, banking corporations in Israel are required to include in their reports a disclosure regarding the liquidity coverage ratio. Concurrently, Proper Conduct of Banking Business Directive No. 221, regarding "Liquidity Coverage Ratio", entered into effect on April 1, 2015. in accordance with the directive, the minimum requirement stands at 80%, and will increase to 100% on January 1, 2017. The Supervisor of Banks states in the transitional instructions that it is expected that a banking corporation, which has attained a liquidity coverage ratio of 100% already at date of the implementation of the instruction, shall not fall from that ratio during the transition period.

The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of IDB (Swiss) Bank and ICC, where the computation was based on the average of monthly observations).

|  | Unaudited                  | Audited              |                      |
|--|----------------------------|----------------------|----------------------|
|  | For the three months ended |                      |                      |
|  | June 30,                   | December 31,         |                      |
|  | 2016                       | 2015                 | 2015                 |
|  | In %                       |                      |                      |
| A. Consolidated  |                            |                      |                      |
| Liquidity coverage ratio                                     | 133.9                      | <sup>(2)</sup> 140.4 | <sup>(2)</sup> 128.0 |
| Liquidity coverage ratio required by the Supervisor of Banks | <sup>(3)</sup> 100.0       | <sup>(3)</sup> 100.0 | <sup>(3)</sup> 100.0 |
| B. The Bank  |                            |                      |                      |
| Liquidity coverage ratio                                     | 160.0                      | 164.6                | 153.4                |
| Liquidity coverage ratio required by the Supervisor of Banks | <sup>(3)</sup> 100.0       | <sup>(3)</sup> 100.0 | <sup>(3)</sup> 100.0 |
| C. Significant subsidiaries <sup>(1)</sup>                   |                            |                      |                      |
| Mercantile Discount Bank LTD and its consolidated companies  |                            |                      |                      |
| Liquidity coverage ratio                                     | 122.9                      | 135.6                | 120.4                |
| Liquidity coverage ratio required by the Supervisor of Banks | <sup>(3)</sup> 100.0       | <sup>(3)</sup> 100.0 | <sup>(3)</sup> 100.0 |

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Furthermore, the directive does not apply to IDB New York.

(2) The data do not include data relating to DBLA in light of the agreement for the sale of its activity, see Note 18.

(3) The liquidity coverage ratio required at date of the Report is 80% (June 30, 2015: 60%) . However, in the transitional instruction, the Supervisor of Banks noted that it is expected that a banking corporation, liquidity coverage ratio of which at the date of initial implementation of the instruction, already reached 100%, would not fall below this ratio during the transitional period.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

|  | Unaudited       |            | Audited     |
|--|-----------------|------------|-------------|
|  | June 30         |            | December 31 |
|  | 2016            | 2015       | 2015        |
|  | in NIS millions |            |             |
| 1. Long-term lease contracts - rent payable in future years:                     |                 |            |             |
| First year   | 116             | 110        | 117         |
| Second year  | 108             | 106        | 108         |
| Third year   | 88              | 91         | 92          |
| Fourth year  | 71              | 73         | 73          |
| Fifth year   | 57              | 59         | 61          |
| Sixth year and thereafter  | 267             | 303        | 286         |
| <b>Total</b>   | <b>707</b>      | <b>742</b> | <b>737</b>  |
| 2. Commitment to acquire buildings and equipment                                 | 56              | 90         | 117         |
| 3. Commitment to invest in private investment funds and in venture capital funds | 457             | 257        | 196         |

## 4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 26 C 12 to the financial statements as at December 31, 2015, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 2,020 million as of June 30, 2016.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 26 C sections 12 through 14 to the financial statements as at December 31, 2015. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 17 to the financial statements as at December 31, 2015.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 26 C 12.2 to the financial statements as of December 31, 2015, described a lawsuit filed on September 12, 2006, against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks.

A Court ruling approving the compromise arrangement was given on May 15, 2016, which the parties filed. On July 1, 2016, the judgment became absolute.

The major part of the payment is to be made in accordance with the compromise arrangement shall be made out of funds transferred in accordance with the agreed Order (see item 6 hereunder).

4.2 Note 26 C 12.3 to the financial statements as of December 31, 2015, described a lawsuit filed on November 23, 2006, to the Jerusalem District Court together with a motion for its approval as a class action suit against the Bank, Bank Hapoalim and Bank Leumi. The claimants assess the amount of the claim at between NIS 5.2 and NIS 5.6 billion for all the defendant banks.

A Court ruling approving the compromise arrangement was given on May 15, 2016, which the parties filed. On July 1, 2016, the judgment became absolute.

The major part of the payment is to be made in accordance with the compromise arrangement shall be made out of funds transferred in accordance with the agreed Order (see item 6 hereunder).

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

- 4.3 Note 26 C 12.4 to the financial statements as of December 31, 2015, described a lawsuit against the Bank, FIBI, Leumi Bank and Mizrahi Bank filed together with a motion for approval of the suit as a class action suit was submitted on October 11, 2012, to the Tel Aviv District Court.

The matter of the lawsuit is the value date attributed by the banks to payments made by debtors directly to their account at the Debt Execution Office. As alleged by the Claimants, the practice of the banks is to determine the date on which payments have been received at the Bank as the value date for these payments from the Debt Execution Office. In respect of the said time difference, the banks charge the debtors with interest in arrears.

The Claimants argue that at this stage it is not possible to assess the amount of the claim, since in order to do so, specific examinations would have to be made at the banks.

At a hearing that took place on July 13, 2016, the Court suggested to the parties that they reach a settlement whereby the banks would declare that they are acting in accordance with the debt specified in the Debt Execution file and would so notify the customers, and the petitioners would withdraw from the action and compensation and professional fees will be paid as recommended by the Court. The parties have until August 15, 2016 to submit their positions to the Court.

- 4.4 Note 26 C 12.7 to the financial statements as of December 31, 2015, described a lawsuit filed with the Tel Aviv-Jaffa District Court filed on August 28, 2013, as well as a motion for the approval of the lawsuit as a class action suit, against the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and the First International Bank. The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a restrictive arrangement in contradiction to the provisions of the Antitrust Act, 1988.

The amount of the claim for all the defendant banks is NIS 7.7 billion. The part attributed to the Bank amounts to NIS 929 million.

The evidentiary hearings were held in March 2016, and the case was deferred for submission of the summing-up briefs. The Appellant filed his summing-up brief on April 17, 2016. On May 30, 2016, the banks filed a motion to delete parts of the Appellant's summing-up brief, since it includes prohibited expansions of the dispute, as well as a file of new representations, whose submission the Court had prohibited. On June 9, 2016, the Court ruled that the summations of the banks are to be submitted within 60 days following the decision that would be given in the said motion for deletion.

On August 8, 2016, the Court ruled for the deletion of the summing-up brief of the Appellant. The Court stated that the Appellant would submit a new summing-up brief, subject to the payment of expenses. Only after the payment of expenses and the submission of the summing-up brief, the Court would examine as to whether now the summing-up brief submitted on his behalf comprises a legally drawn up summing-up brief, and then fix a date for the submission of a summing-up brief on behalf of the banks.

It is noted, as detailed in Note 26 C 12.10 to the financial statements as of December 31, 2015, that on March 2, 2014, a lawsuit together with a motion for its approval as a class action suit were submitted against MDB and four additional banks, based on the same cause of action. The total amount stated in the motion for approval of a class action against the five banks is estimated at NIS 2.07 billion by the claimants. The claim does not state the share of MDB in the total amount of the claim.

In accordance with the decision of the Court, the hearing of the two cases has been combined.

- 4.5 Note 26 C 12.5 to the financial statements as of December 31, 2015, described a lawsuit together with a motion for approval of the suit as a class action suit filed on April 17, 2013, with the Tel-Aviv District Court, against ICC and Castro Models Company Ltd.

The claim relates to the marketing of "Wish you card" gift cards. The Claimant alleges that the marketing of the gift cards was made while the Respondents displayed misleading statements and determined prohibited terms.

The Claimant stated the amount of the claim for all group members at NIS 213.5 million, on the assumption that the group numbers about 500 thousand customers.

A motion for approval of a compromise arrangement was filed with the Court on August 10, 2016. According to this arrangement, the participation of ICC in the cost of the arrangement is expected to reach an amount of NIS 200 thousand.



## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

- 4.6 Note 26 C 12.9 to the financial statements as of December 31, 2015, described a lawsuit filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC together with a motion for approval of the lawsuit as a class action suit.

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy.

The Appellant stated the amount of the claim in respect of all group members at NIS 2,225 million.

A decision dismissing the claim against the Bank was given on August 19, 2014. On January 20, 2016, the Supreme Court dismissed the appeal by the Appellant, and left in effect the decision of the District Court to dismiss in limine the motion against the Bank. The proceedings against ICC are continuing.

On April 13, 2016, examinations of the affiants in the case took place. On June 14, 2016, the petitioner presented its summation and ICC has until September 14, 2016 at the latest to present its summation.

- 4.7 Note 26 C 12.12 to the financial statements as of December 31, 2015, described a lawsuit together with a motion for its approval as a class action suit, filed with the District Court Central Region against ICC and others on April 28, 2014.

The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies.

The Plaintiffs assess the amount of the claim against all defendants and in respect of all class members at NIS 1,736 million.

Following the decision of the Court, three motions have been submitted to the Court for the appointment of Appellants and representatives in this case and new representatives were appointed. A new motion was filed on June 9, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion. ICC has until November 1, 2016 at the latest to file its response to the new motion for approval.

- 4.8 Note 26 C 13.2 to the financial statements as of December 31, 2015, described a lawsuit filed against the Bank on October 19, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit.

The Claimant argues that in violation of the law, the Bank charges its customers an excessive early repayment commission in respect of loans which are not housing loans. It is being argued that the Bank acts in contravention of Proper Conduct of Banking Business Directive No. 454.

The Claimant stated that it is unable to estimate the amount of the damage caused.

The Bank submitted a response to the motion for approval on July 21, 2016. The case was fixed for hearing evidence for November 2016.

- 4.9 Note 26 C 13.4 to the financial statements as of December 31, 2015, described a lawsuit filed on January 26, 2016, together with a motion for its approval as a class action suit, against the Bank with the Tel Aviv District Court.

The subject matter of the motion is the alleged incorrect entries and the non-rectification thereof according to the correct entries. According to the Plaintiff, the Bank does not restate the entries in the account in order to correct them and for it to show the position it should have been in, if the incorrect entries had not been made. This, contrary to the instructions of the Supervisor of Banks, the law and Court decisions.

The Plaintiff is unable to assess his claim and estimates the total damage at between tens and hundreds of million shekels. The Plaintiff stated the amount of the claim upon its submission at NIS 100 million.

The response of the Bank was filed on June 15, 2016.

- 4.10 A lawsuit against the Bank was filed with the Tel Aviv District Court on March 3, 2016, together with a motion for its approval as a class action suit.

It is alleged in the motion that the Bank unlawfully charges a commission with respect to a lawyer's warning letter. The Claimant states that customers' accounts may be charged in respect of legal proceedings only at the conclusion of these proceedings and at rates approved by the Court or by another judicial authority. The Claimant further claims that following the charging of the said commission to customer accounts, it bears bank interest at a rate higher than the rate stated in the interest charging Act.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Claimant stated the amount of the claim for all members of the class at NIS 100 million.

A motion with the consent of the parties, for the withdrawal of the motion for approval of a class action was filed on April 13, 2016. On April 17, 2016, the Court admitted the said withdrawal of the motion.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

- 5.1 Note 26 C 13.1 to the financial statements as of December 31, 2015, described a petition for approval of an action as a class action suit filed with the Tel Aviv District Court On June 19, 2000 by two borrowers of DMB against DMB and against the Israel Phoenix Insurance Co. Ltd., where the properties of the borrowers are insured. The action is for the amount of NIS 105 million (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

On December 25, 2000, the Court decided that whereas the arguments in this case are similar to those argued in another class action suit, as described in item 12.1 to Note 26 C to the financial statements as of December 31, 2015, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

- 5.2 Note 26 C 13.3 to the financial statements as of December 31, 2015, described a lawsuit filed against Discount Bank and Hapoalim Bank with the Tel Aviv District Court on August 23, 2015, together with a motion for approval of the action as a class action suit.

According to the Plaintiff, the said banks had provided investment consulting services to their customers regarding the purchase and/or sale of ETN's without having proper computerized systems and professional tools supporting such services. The Plaintiff argues that the granting of the said service constitutes a flagrant breach of the duties applying to investment consultants.

The Plaintiff stated the amount of the claim for all members of the class at NIS 160 million, or alternatively at NIS 368 million. The share applying to the Bank is NIS 49 million or alternatively NIS 73 million. On February 2, 2016, the Court instructed the combining of the hearing of this case with that of an additional motion against FIBI in a similar matter.

The Bank submitted on June 13, 2016, its response to the motion. The case is fixed for a preliminary hearing on January 15, 2017.

- 5.3 A lawsuit against the Bank and against two additional defendants was filed on April 17, 2016, with the Jerusalem District Court, together with a motion for partial exemption from Court fees. The lawsuit was filed by a trustee in bankruptcy of a former CEO and shareholder of a group of companies who personally was also a guarantor for the debts of the group. According to the Plaintiff, the Bank, which had supported the group during its years of business operations, cancelled suddenly, with no prior notice, the credit facilities of the group with everything involved therein. The Plaintiff alleges that these actions taken by the Bank brought about the collapse of the group of companies, and as a result the economic and personal collapse of the bankrupt.

It is further claimed that due to the conduct of the Bank, a company which had intended to invest, has withdrawn from the transaction. The total amount of the claim against all defendants, jointly and severally, is NIS 105 million.

On May 15, 2016, the Bank and the other respondents submitted their response to the motion for exemption from Court fees. On May 26, 2016, the State submitted its response, opposing the exemption from Court fees.

The Court instructed the Official Receiver to submit, until July 10, 2016, his position on the issue of the economic abilities of the Plaintiff and this has not yet been submitted.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

6. Note 26 C 14 to the financial statements as of December 31, 2015, described the decision of the Antitrust Commissioner regarding restrictive arrangements between banks, following an investigation conducted since 2004 by the Antitrust Authority.

On April 26, 2009, the Antitrust Commissioner ("the Commissioner") issued a statement under Section 43(a)(1) of the Antitrust Act, 1988, according to which restrictive arrangements existed between Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., Mizrahi-Tefahot Bank, the First International bank of Israel Ltd. and the Bank (hereinafter: "the banks"), in the matter of communication of information regarding commissions ("the Commissioner's Statement"). Under Section 43(e) of the Antitrust Law, the Commissioner's statement serves as prima facie evidence for its contents in any legal proceedings.

In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the Commissioner's statement.

On June 16, 2014 the Antitrust Tribunal approved the agreed order signed between the banks and the Commissioner ("the agreed order"), whereby it is determined that the banks would pay an amount of NIS 70 million, of which an amount of NIS 14 million to be paid by Discount Bank ("the payment"), and this without the banks admitting their liability under the provisions of the law or admitting a violation on their part of the provisions of the law. In view of the approval of the agreed order by the Antitrust Tribunal and to the deposit of the payment by the banks, the Commissioner's statement was cancelled and no enforcement measures would be taken against the banks in connection with the investigation that had led to the publication of the decision.

It has been determined, within the framework of the agreed order, that the payment may be used for compromise arrangements that might be reached by the banks as regards class actions that are pending against them, and which are detailed in the agreed order. The balance of the payment, which would remain at the end of twenty-four months from date of approval of the agreed order, shall be assigned to the State's Treasury.

On March 30, 2016, the Antitrust Tribunal extended the date for the transfer of the funds remaining with the Trustee in accordance with the agreed Order, until January 15, 2017.

7. **The merger of Discount Underwriting and Issuing Ltd.** An agreement for the merger of Discount Underwriting and Issuing Ltd. ("Discount Underwriting") with Clal Finance Underwriting Ltd. ("Clal Underwriting") was signed on November 15, 2015. It has been agreed, within the framework of the merger transaction, that Israel Discount Capital Market and Investments Ltd. (DCMI) would invest in Discount Underwriting an amount of approx. NIS 22 million in consideration for the issue of shares, and that the rate of holdings of DCMI in the issued and paid share capital of Discount Underwriting and in the voting therein would be reduced to 55%.

All conditions precedent to the consummation of the merger transaction had been fulfilled by April 5, 2016, with the exception of the approval by the registrar of Companies, which was received on May 3, 2016. In accordance with the merger agreement, Clal Underwriting was merged with and into Discount Underwriting, under Section 323 of the Companies Act, 1999.

At date of consummation of the merger, an agreement between the shareholders of Discount Underwriting took effect, which regularizes the relations between them. Among other things, the shareholders agreement imposes restrictions on the transferability of the shares held by them, and also grants a call option to DCMI and a put option to the minority shareholders of Discount Underwriting, which may be exercised at the end of four years from date of signing of the agreement, at the earliest.

8. **IDB (Swiss) Bank.** On November 23, 2015, IDB (Swiss) Bank, a subsidiary of the Bank, entered into an agreement pursuant to which it will sell its customer operations, as defined in the agreement. The transaction includes indemnification of the purchaser, limited in amount and time, in respect of different representations. The consideration will be paid in installments, as prescribed in the agreement, and the final amount is subject to adjustments to be derived from the value of the assets sold on the dates prescribed in the agreement. The transaction was consummated on February 26, 2016. On date of completion, an amount of CHF 5.4 million was paid according to the agreement, comprising 60% of the amount determined in the agreement. Following the conclusion of the transaction, the Bank is acting to close down the subsidiary company.

Expenses and allowance for expenses in the amount of 10 million Swiss francs (NIS 41 million) were recorded in the financial statements as of December 31, 2015, as a result of this move, an amount of NIS 33 million after the tax effect. The said consideration in the amount of CHF 5.4 million was recorded in the first quarter of 2016. As a result, a pre-tax profit of NIS 18 million was recognized in the first quarter, an after-tax amount of NIS 11 million.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

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9. **Commitment for indemnification in Discount Leasing.** On July 4, 2016, the Bank's Board of Directors approved the granting of a commitment for indemnification of officers of Discount Leasing Company Ltd., in respect of a monetary liability which might be imposed on an officer in favor of a third party. The said commitment is subject to the maximum amount of indemnification determined in respect of all indemnifications granted to officers of the Bank and of its subsidiary companies, as described in Note 26 C 8 m to the financial statements as of December 31, 2015. The indemnification commitment shall apply to officers of the Company, including those acting also as officers of the Bank.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS

| Unaudited  |                         |        |                                  |                        |                                       |         |
|--|-------------------------|--------|----------------------------------|------------------------|---------------------------------------|---------|
| June 30, 2016  |                         |        |                                  |                        |                                       |         |
|  | Interest rate contracts |        | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total   |
|  | Shekel/CPI              | Other  |                                  |                        |                                       |         |
| in NIS millions  |                         |        |                                  |                        |                                       |         |
| A. Hedging derivatives <sup>(1)</sup>  |                         |        |                                  |                        |                                       |         |
| Swaps  | -                       | 3,729  | -                                | -                      | -                                     | 3,729   |
| Total  | -                       | 3,729  | -                                | -                      | -                                     | 3,729   |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate |                         |        |                                  |                        |                                       |         |
|  | -                       | 3,729  |                                  |                        |                                       |         |
| B. ALM derivatives <sup>(1)(2)</sup>   |                         |        |                                  |                        |                                       |         |
| Futures contracts  | -                       | 3,461  | -                                | -                      | -                                     | 3,461   |
| Forward contracts  | 9,643                   | 7,200  | 23,780                           | -                      | -                                     | 40,623  |
| Marketable option contracts  |                         |        |                                  |                        |                                       |         |
| Options written  | -                       | -      | 1,614                            | -                      | -                                     | 1,614   |
| Options purchased  | -                       | -      | 1,608                            | -                      | -                                     | 1,608   |
| Other option contracts   |                         |        |                                  |                        |                                       |         |
| Options written  | -                       | 2,280  | 11,200                           | -                      | -                                     | 13,480  |
| Options purchased  | -                       | 630    | 10,625                           | (3)-                   | -                                     | 11,255  |
| Swaps  | 228                     | 72,941 | 61,782                           | -                      | -                                     | 134,951 |
| Total  | 9,871                   | 86,512 | 110,609                          | -                      | -                                     | 206,992 |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate |                         |        |                                  |                        |                                       |         |
|  | 228                     | 36,721 |                                  |                        |                                       |         |
| C. Other derivatives <sup>(1)</sup>  |                         |        |                                  |                        |                                       |         |
| Futures contracts  | -                       | 34     | -                                | -                      | 24                                    | 58      |
| Forward contracts  | -                       | -      | 2,978                            | -                      | -                                     | 2,978   |
| Marketable option contracts  |                         |        |                                  |                        |                                       |         |
| Options written  | -                       | -      | 12                               | 4,981                  | -                                     | 4,993   |
| Options purchased  | -                       | -      | 12                               | 4,981                  | -                                     | 4,993   |
| Other option contracts   |                         |        |                                  |                        |                                       |         |
| Options written  | -                       | 52     | 569                              | 687                    | 28                                    | 1,336   |
| Options purchased  | -                       | 59     | 557                              | 700                    | 30                                    | 1,346   |
| Swaps  | -                       | 6,903  | -                                | -                      | -                                     | 6,903   |
| Total  | -                       | 7,048  | 4,128                            | 11,349                 | 82                                    | 22,607  |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate |                         |        |                                  |                        |                                       |         |
|  | -                       | 3,417  |                                  |                        |                                       |         |
| D. Credit derivatives and SPOT foreign currency swap<br>contracts  |                         |        |                                  |                        |                                       |         |
| SPOT foreign currency swap contracts   |                         |        | 3,720                            |                        |                                       |         |

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) An amount lower than NIS 1 million.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

| Unaudited   |                         |               |                                  |                        |                                       |                |
|---|-------------------------|---------------|----------------------------------|------------------------|---------------------------------------|----------------|
| June 30, 2015   |                         |               |                                  |                        |                                       |                |
|   | Interest rate contracts |               | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total          |
|   | Shekel/CPI              | Other         |                                  |                        |                                       |                |
| in NIS millions   |                         |               |                                  |                        |                                       |                |
| <b>A. Hedging derivatives<sup>(1)</sup></b>   |                         |               |                                  |                        |                                       |                |
| Swaps   | -                       | 1,986         | -                                | -                      | -                                     | 1,986          |
| <b>Total</b>  | -                       | <b>1,986</b>  | -                                | -                      | -                                     | <b>1,986</b>   |
| Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate | -                       | 1,986         |                                  |                        |                                       |                |
| <b>B. ALM derivatives<sup>(1)(2)</sup></b>  |                         |               |                                  |                        |                                       |                |
| Futures contracts   | -                       | 4,573         | -                                | -                      | -                                     | 4,573          |
| Forward contracts   | 7,236                   | 200           | 11,746                           | -                      | -                                     | 19,182         |
| Marketable option contracts   |                         |               |                                  |                        |                                       |                |
| Options written   | -                       | -             | 3,050                            | -                      | -                                     | 3,050          |
| Options purchased   | -                       | -             | 3,050                            | -                      | -                                     | 3,050          |
| Other option contracts  |                         |               |                                  |                        |                                       |                |
| Options written   | -                       | 1,030         | 10,141                           | -                      | -                                     | 11,171         |
| Options purchased   | -                       | 300           | 10,084                           | (3)                    | -                                     | 10,384         |
| Swaps   | 3                       | 79,633        | 60,408                           | -                      | -                                     | 140,044        |
| <b>Total</b>  | <b>7,239</b>            | <b>85,736</b> | <b>98,479</b>                    | -                      | -                                     | <b>191,454</b> |
| Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate | 3                       | 39,596        |                                  |                        |                                       |                |
| <b>C. Other derivatives<sup>(1)</sup></b>   |                         |               |                                  |                        |                                       |                |
| Futures contracts   | -                       | -             | -                                | -                      | 21                                    | 21             |
| Forward contracts   | -                       | -             | 2,955                            | -                      | -                                     | 2,955          |
| Marketable option contracts   |                         |               |                                  |                        |                                       |                |
| Options written   | -                       | -             | 17                               | 6,075                  | 17                                    | 6,109          |
| Options purchased   | -                       | -             | 17                               | 6,075                  | 17                                    | 6,109          |
| Other option contracts  |                         |               |                                  |                        |                                       |                |
| Options written   | -                       | 128           | 446                              | 399                    | 49                                    | 1,022          |
| Options purchased   | -                       | 134           | 442                              | 404                    | 50                                    | 1,030          |
| Swaps   | -                       | 5,520         | 43                               | -                      | -                                     | 5,563          |
| <b>Total</b>  | -                       | <b>5,782</b>  | <b>3,920</b>                     | <b>12,953</b>          | <b>154</b>                            | <b>22,809</b>  |
| Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate | -                       | 3,173         |                                  |                        |                                       |                |
| <b>D. Credit derivatives and SPOT foreign currency swap contracts</b>                                     |                         |               |                                  |                        |                                       |                |
| SPOT foreign currency swap contracts  |                         |               | 3,391                            |                        |                                       |                |

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) An amount lower than NIS 1 million.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

| Audited  |                         |               |                                  |                        |                                       |                |
|--|-------------------------|---------------|----------------------------------|------------------------|---------------------------------------|----------------|
| December 31, 2015  |                         |               |                                  |                        |                                       |                |
|  | Interest rate contracts |               | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total          |
|  | Shekel/CPI              | Other         |                                  |                        |                                       |                |
| in NIS millions  |                         |               |                                  |                        |                                       |                |
| A. Hedging derivatives <sup>(1)</sup>  |                         |               |                                  |                        |                                       |                |
| Swaps  | -                       | 3,401         | -                                | -                      | -                                     | 3,401          |
| <b>Total</b>   | -                       | <b>3,401</b>  | -                                | -                      | -                                     | <b>3,401</b>   |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate | -                       | 3,401         |                                  |                        |                                       |                |
| B. ALM derivatives <sup>(1)(2)</sup>   |                         |               |                                  |                        |                                       |                |
| Futures contracts  | -                       | 4,683         | -                                | -                      | -                                     | 4,683          |
| Forward contracts  | 7,876                   | 1,700         | 14,111                           | -                      | -                                     | 23,687         |
| Marketable option contracts  |                         |               |                                  |                        |                                       |                |
| Options written  | -                       | -             | 2,380                            | -                      | -                                     | 2,380          |
| Options purchased  | -                       | -             | 2,379                            | -                      | -                                     | 2,379          |
| Other option contracts   |                         |               |                                  |                        |                                       |                |
| Options written  | -                       | 1,050         | 5,483                            | -                      | -                                     | 6,533          |
| Options purchased  | -                       | 80            | 5,033                            | <sup>(3)</sup> -       | -                                     | 5,113          |
| Swaps  | 214                     | 76,506        | 64,654                           | -                      | -                                     | 141,374        |
| <b>Total</b>   | <b>8,090</b>            | <b>84,019</b> | <b>94,040</b>                    | -                      | -                                     | <b>186,149</b> |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate | 214                     | 37,844        |                                  |                        |                                       |                |
| C. Other derivatives <sup>(1)</sup>  |                         |               |                                  |                        |                                       |                |
| Futures contracts  | -                       | 88            | -                                | -                      | 26                                    | 114            |
| Forward contracts  | -                       | -             | 2,617                            | -                      | -                                     | 2,617          |
| Marketable option contracts  |                         |               |                                  |                        |                                       |                |
| Options written  | -                       | -             | 2                                | 8,929                  | -                                     | 8,931          |
| Options purchased  | -                       | -             | 2                                | 8,929                  | -                                     | 8,931          |
| Other option contracts   |                         |               |                                  |                        |                                       |                |
| Options written  | -                       | 43            | 719                              | 468                    | 29                                    | 1,259          |
| Options purchased  | -                       | 54            | 714                              | 476                    | 30                                    | 1,274          |
| Swaps  | -                       | 6,391         | -                                | -                      | -                                     | 6,391          |
| <b>Total</b>   | -                       | <b>6,576</b>  | <sup>(4)</sup> <b>4,054</b>      | <b>18,802</b>          | <b>85</b>                             | <b>29,517</b>  |
| Of which: interest rate swap contracts, where the<br>banking corporation agreed to pay a fixed interest rate | -                       | 3,160         |                                  |                        |                                       |                |
| D. Credit derivatives and SPOT foreign currency swap<br>contracts  |                         |               |                                  |                        |                                       |                |
| SPOT foreign currency swap contracts   |                         |               | 1,626                            |                        |                                       |                |

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) An amount lower than NIS 1 million.

(4) Excluding transactions of IDB (Swiss) Bank, in the par value of NIS 491 million (equity value of NIS 3 million), which were classified as "available-for-sale", see Note 18B.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS

| Unaudited   |                         |       |                                  |                        |                                       |       |
|---|-------------------------|-------|----------------------------------|------------------------|---------------------------------------|-------|
| June 30, 2016   |                         |       |                                  |                        |                                       |       |
|   | Interest rate contracts |       | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total |
|   | Shekel/CPI              | Other |                                  |                        |                                       |       |
| in NIS millions   |                         |       |                                  |                        |                                       |       |
| A. Hedging derivatives  |                         |       |                                  |                        |                                       |       |
| Positive gross fair value   | -                       | -     | -                                | -                      | -                                     | -     |
| Negative gross fair value   | -                       | 213   | -                                | -                      | -                                     | 213   |
| B. ALM derivatives <sup>(1)</sup>   |                         |       |                                  |                        |                                       |       |
| Positive gross fair value   | 182                     | 1,995 | 1,330                            | (4)_                   | -                                     | 3,507 |
| Negative gross fair value   | 187                     | 2,318 | 1,426                            | -                      | -                                     | 3,931 |
| C. Other derivatives  |                         |       |                                  |                        |                                       |       |
| Positive gross fair value   | -                       | 143   | 38                               | 145                    | (4)_                                  | 326   |
| Negative gross fair value   | -                       | 143   | 35                               | 144                    | (4)_                                  | 322   |
| D.Total   |                         |       |                                  |                        |                                       |       |
| Positive gross fair value <sup>(2)</sup>  | 182                     | 2,138 | 1,368                            | 145                    | -                                     | 3,833 |
| Amounts of fair value offset in the balance sheet   | -                       | -     | -                                | -                      | -                                     | -     |
| Balance sheet balance of assets stemming from derivative instruments <sup>(2)</sup>   | 182                     | 2,138 | 1,368                            | 145                    | -                                     | 3,833 |
| Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements      | -                       | (4)_  | 36                               | 120                    | (4)_                                  | 156   |
| Negative gross fair value <sup>(3)</sup>  | 187                     | 2,674 | 1,461                            | 144                    | -                                     | 4,466 |
| Amounts of fair value offset in the balance sheet   | -                       | -     | -                                | -                      | -                                     | -     |
| Balance sheet balance of liabilities stemming from derivative instruments <sup>(3)</sup>  | 187                     | 2,674 | 1,461                            | 144                    | -                                     | 4,466 |
| Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements | -                       | (4)_  | 70                               | 120                    | -                                     | 190   |

For footnotes see page 150.



## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

| Unaudited   |                         |              |                                  |                        |                                       |              |
|---|-------------------------|--------------|----------------------------------|------------------------|---------------------------------------|--------------|
| June 30, 2015   |                         |              |                                  |                        |                                       |              |
|   | Interest rate contracts |              | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total        |
|   | Shekel/CPI              | Other        |                                  |                        |                                       |              |
| in NIS millions   |                         |              |                                  |                        |                                       |              |
| <b>A. Hedging derivatives</b>   |                         |              |                                  |                        |                                       |              |
| Positive gross fair value   | -                       | 11           | -                                | -                      | -                                     | 11           |
| Negative gross fair value   | -                       | 37           | -                                | -                      | -                                     | 37           |
| <b>B. ALM derivatives<sup>(1)</sup></b>   |                         |              |                                  |                        |                                       |              |
| Positive gross fair value   | 103                     | 1,858        | 1,300                            | (4)_                   | -                                     | 3,261        |
| Negative gross fair value   | 104                     | 2,126        | 1,560                            | -                      | -                                     | 3,790        |
| <b>C. Other derivatives</b>   |                         |              |                                  |                        |                                       |              |
| Positive gross fair value   | -                       | 48           | 68                               | 163                    | 1                                     | 280          |
| Negative gross fair value   | -                       | 48           | 61                               | 162                    | 1                                     | 272          |
| <b>D.Total</b>  |                         |              |                                  |                        |                                       |              |
| Positive gross fair value <sup>(2)</sup>  | 103                     | 1,917        | 1,368                            | 163                    | 1                                     | 3,552        |
| Amounts of fair value offset in the balance sheet   | -                       | -            | -                                | -                      | -                                     | -            |
| <b>Balance sheet balance of assets stemming from derivative instruments<sup>(2)</sup></b>   | <b>103</b>              | <b>1,917</b> | <b>1,368</b>                     | <b>163</b>             | <b>1</b>                              | <b>3,552</b> |
| Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements      | -                       | (4)_         | 63                               | 127                    | -                                     | 190          |
| Negative gross fair value <sup>(3)</sup>  | 104                     | 2,211        | 1,621                            | 162                    | 1                                     | 4,099        |
| Amounts of fair value offset in the balance sheet   | -                       | -            | -                                | -                      | -                                     | -            |
| <b>Balance sheet balance of liabilities stemming from derivative instruments<sup>(3)</sup></b>  | <b>104</b>              | <b>2,211</b> | <b>1,621</b>                     | <b>162</b>             | <b>1</b>                              | <b>4,099</b> |
| Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements | -                       | 2            | 98                               | 127                    | (4)_                                  | 227          |

For footnotes see next page.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

| GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)  |                         |                  |                                  |                        |                                       |       |
|---|-------------------------|------------------|----------------------------------|------------------------|---------------------------------------|-------|
| Audited   |                         |                  |                                  |                        |                                       |       |
| December 31, 2015   |                         |                  |                                  |                        |                                       |       |
|   | Interest rate contracts |                  | Foreign<br>currency<br>contracts | Contracts<br>on shares | Commodities<br>and other<br>contracts | Total |
|   | Shekel/CPI              | Other            |                                  |                        |                                       |       |
| in NIS millions   |                         |                  |                                  |                        |                                       |       |
| A. Hedging derivatives  |                         |                  |                                  |                        |                                       |       |
| Positive gross fair value   | -                       | 9                | -                                | -                      | -                                     | 9     |
| Negative gross fair value   | -                       | 56               | -                                | -                      | -                                     | 56    |
| B. ALM derivatives <sup>(1)</sup>   |                         |                  |                                  |                        |                                       |       |
| Positive gross fair value   | 168                     | 1,739            | 959                              | <sup>(4)</sup> -       | -                                     | 2,866 |
| Negative gross fair value   | 149                     | 2,009            | 938                              | -                      | -                                     | 3,096 |
| C. Other derivatives  |                         |                  |                                  |                        |                                       |       |
| Positive gross fair value   | -                       | 61               | 41                               | 259                    | <sup>(4)</sup> -                      | 361   |
| Negative gross fair value   | -                       | 61               | 37                               | 258                    | <sup>(4)</sup> -                      | 356   |
| D.Total   |                         |                  |                                  |                        |                                       |       |
| Positive gross fair value <sup>(2)</sup>  | 168                     | 1,809            | 1,000                            | 259                    | -                                     | 3,236 |
| Amounts of fair value offset in the balance sheet   | -                       | -                | -                                | -                      | -                                     | -     |
| Balance sheet balance of assets stemming from derivative instruments <sup>(2)</sup>   | 168                     | 1,809            | 1,000                            | 259                    | -                                     | 3,236 |
| Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements      | -                       | <sup>(4)</sup> - | 47                               | 226                    | <sup>(4)</sup> -                      | 273   |
| Negative gross fair value <sup>(3)</sup>  | 149                     | 2,126            | 975                              | 258                    | -                                     | 3,508 |
| Amounts of fair value offset in the balance sheet   | -                       | -                | -                                | -                      | -                                     | -     |
| Balance sheet balance of liabilities stemming from derivative instruments <sup>(3)</sup>  | 149                     | 2,126            | 975                              | 258                    | -                                     | 3,508 |
| Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements | -                       | 1                | 80                               | 226                    | <sup>(4)</sup> -                      | 307   |

Footnotes:

(1) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(2) Of which: NIS 21 million (June 30, 2015: NIS 29 million; December 31, 2015: NIS 28 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 28 million (June 30, 2015: NIS 32 million; December 31, 2015: NIS 33 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

(4) An amount lower than NIS 1 million.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### B. DERIVATIVE INSTRUMENTS CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT, ON A CONSOLIDATED BASIS

|  | Unaudited         |            |                     |                                     |              |              |
|--|-------------------|------------|---------------------|-------------------------------------|--------------|--------------|
|  | Stock<br>Exchange | Banks      | Dealers/<br>brokers | Governments<br>and central<br>banks | Others       | Total        |
|  |                   |            |                     |                                     |              |              |
|  |                   |            |                     |                                     |              |              |
|  |                   |            |                     |                                     |              |              |
| In NIS millions  |                   |            |                     |                                     |              |              |
| June 30, 2016  |                   |            |                     |                                     |              |              |
| Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>      | 22                | 2,487      | 27                  | -                                   | 1,297        | 3,833        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |              |              |
| Credit risk mitigation in respect of financial instruments                               | (1)               | (2,138)    | (11)                | -                                   | (492)        | (2,642)      |
| Credit risk mitigation in respect of cash collateral received                            | -                 | (269)      | -                   | -                                   | (31)         | (300)        |
| <b>Net amount of assets in respect of derivative instruments</b>                         | <b>21</b>         | <b>80</b>  | <b>16</b>           | <b>-</b>                            | <b>774</b>   | <b>891</b>   |
| Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>        | -                 | 217        | 27                  | 18                                  | 637          | 899          |
| <b>Total credit risk in respect of derivative instruments</b>                            | <b>21</b>         | <b>297</b> | <b>43</b>           | <b>18</b>                           | <b>1,411</b> | <b>1,790</b> |
| Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup> | 59                | 3,578      | 62                  | 2                                   | 765          | 4,466        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |              |              |
| Financial instruments  | (1)               | (2,138)    | (11)                | -                                   | (492)        | (2,642)      |
| Pledged cash collateral  | -                 | (1,241)    | -                   | -                                   | (3)          | (1,244)      |
| <b>Net amount of liabilities in respect of derivative instruments</b>                    | <b>58</b>         | <b>199</b> | <b>51</b>           | <b>2</b>                            | <b>270</b>   | <b>580</b>   |
| June 30, 2015  |                   |            |                     |                                     |              |              |
| Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>      | 36                | 2,459      | 51                  | 13                                  | 993          | 3,552        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |              |              |
| Credit risk mitigation in respect of financial instruments                               | (1)               | (2,286)    | (11)                | -                                   | (295)        | (2,593)      |
| Credit risk mitigation in respect of cash collateral received                            | -                 | (45)       | -                   | -                                   | (20)         | (65)         |
| <b>Net amount of assets in respect of derivative instruments</b>                         | <b>35</b>         | <b>128</b> | <b>40</b>           | <b>13</b>                           | <b>678</b>   | <b>894</b>   |
| Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>        | -                 | 73         | 35                  | 18                                  | 463          | 589          |
| <b>Total credit risk in respect of derivative instruments</b>                            | <b>35</b>         | <b>201</b> | <b>75</b>           | <b>31</b>                           | <b>1,141</b> | <b>1,483</b> |
| Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup> | 41                | 3,298      | 73                  | -                                   | 687          | 4,099        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |              |              |
| Financial instruments  | (1)               | (2,286)    | (11)                | -                                   | (295)        | (2,593)      |
| Pledged cash collateral  | -                 | (747)      | -                   | -                                   | (6)          | (753)        |
| <b>Net amount of liabilities in respect of derivative instruments</b>                    | <b>40</b>         | <b>265</b> | <b>62</b>           | <b>-</b>                            | <b>386</b>   | <b>753</b>   |

For footnotes see next page.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### B. DERIVATIVE INSTRUMENTS CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT, ON A CONSOLIDATED BASIS (CONTINUED)

| Audited  |                   |            |                     |                                     |            |              |
|--|-------------------|------------|---------------------|-------------------------------------|------------|--------------|
| December 31, 2015  |                   |            |                     |                                     |            |              |
|  | Stock<br>Exchange | Banks      | Dealers/<br>brokers | Governments<br>and central<br>banks | Others     | Total        |
| In NIS millions  |                   |            |                     |                                     |            |              |
| Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>      | 78                | 2,359      | 28                  | 1                                   | 770        | 3,236        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |            |              |
| Credit risk mitigation in respect of financial instruments                               | (1)               | (1,986)    | (11)                | (1)                                 | (226)      | (2,225)      |
| Credit risk mitigation in respect of cash collateral received                            | -                 | (220)      | (3)                 | -                                   | (34)       | (257)        |
| <b>Net amount of assets in respect of derivative instruments</b>                         | <b>77</b>         | <b>153</b> | <b>14</b>           | <b>-</b>                            | <b>510</b> | <b>754</b>   |
| Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>        | -                 | 206        | 26                  | 7                                   | 311        | 550          |
| <b>Total credit risk in respect of derivative instruments</b>                            | <b>77</b>         | <b>359</b> | <b>40</b>           | <b>7</b>                            | <b>821</b> | <b>1,304</b> |
| Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup> | 73                | 2,733      | 103                 | 3                                   | 596        | 3,508        |
| Gross amounts not offset in the balance sheet:   |                   |            |                     |                                     |            |              |
| Financial instruments  | (1)               | (1,986)    | (11)                | (1)                                 | (226)      | (2,225)      |
| Pledged cash collateral  | -                 | (576)      | -                   | -                                   | -          | (576)        |
| <b>Net amount of liabilities in respect of derivative instruments</b>                    | <b>72</b>         | <b>171</b> | <b>92</b>           | <b>2</b>                            | <b>370</b> | <b>707</b>   |

Footnotes:

- (1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and the balance sheet amount of assets in respect of derivative instruments of the borrower.
- (2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,812 million included in the item assets in respect of derivative instruments (June 30, 2015: NIS 3,523 million; December 31, 2015: NIS 3,208 million).
- (3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,438 million included in the item liabilities in respect of derivative instruments (June 30, 2015: NIS 4,067 million; December 31, 2015: NIS 3,475 million).

## 11. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### C. DUE DATES - PAR VALUE: CONSOLIDATED PERIOD END BALANCES

|                                 | Up to 3 months | From 3 months to 1 year | From 1 year to 5 years | Over 5 years  | Total             |
|---------------------------------|----------------|-------------------------|------------------------|---------------|-------------------|
| In NIS millions                 |                |                         |                        |               |                   |
| Unaudited                       |                |                         |                        |               |                   |
| June 30, 2016                   |                |                         |                        |               |                   |
| Interest rate contracts         |                |                         |                        |               |                   |
| Shekel/CPI                      | 352            | 2,457                   | 4,582                  | 2,480         | 9,871             |
| Other                           | 3,421          | 25,120                  | 44,479                 | 24,269        | 97,289            |
| Foreign currency contracts      | 66,189         | 39,939                  | 8,843                  | 3,486         | 118,457           |
| Contracts on shares             | 9,374          | 542                     | 1,278                  | 155           | 11,349            |
| Commodities and other contracts | 6              | 18                      | 58                     | -             | 82                |
| <b>Total</b>                    | <b>79,342</b>  | <b>68,076</b>           | <b>59,240</b>          | <b>30,390</b> | <b>237,048</b>    |
| Unaudited                       |                |                         |                        |               |                   |
| June 30, 2015                   |                |                         |                        |               |                   |
| <b>Total</b>                    | <b>81,708</b>  | <b>58,898</b>           | <b>55,665</b>          | <b>23,369</b> | <b>219,640</b>    |
| Audited                         |                |                         |                        |               |                   |
| December 31, 2015               |                |                         |                        |               |                   |
| <b>Total</b>                    | <b>88,814</b>  | <b>47,607</b>           | <b>59,045</b>          | <b>25,227</b> | <b>(1)220,693</b> |

Footnote:

(1) Excluding transactions of IDB (Swiss) Bank, in the par value of NIS 491 million (equity value of NIS 3 million), which were classified as "available-for-sale", see Note 18B.

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED

### A. General

As from the financial statements as of December 31, 2015, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

The regulatory operating segments have been defined by the Bank of Israel in an amendment to the Directive, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

**"Household segment"**: private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

**"Private banking segment"**: private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

**"Minute businesses segment"**: businesses, the annual turnover of which is lower than NIS 10 million.

**"Small businesses segment"**: businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

**"Medium businesses segment"**: businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

**"Large businesses segment"**: Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

**"Financial management segment"** - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

**"Other segment"** - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

**"Private individuals"** – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

**"Business"** - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

**"Annual turnover"** – annual sales turnover or volume of annual income.

**"Trading operations"** – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

**"Asset and liability management activity"** – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

**"Non-financial investment activity"** – investment in available-for-sale equities and investments in affiliated companies.

**"Other activities"** – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

**"Asset management"** – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

According to the instructions, the required disclosure is entering into effect as follows: the financial statements for 2015 include disclosure of the balance sheet items of the regulatory operating segments. The full disclosure requirements entered into effect as from the condensed financial statements as of March 31, 2016. Accordingly, the comparative data for the first six months of 2015 and as of June 30, 2015, are presented for the first time in these statements.

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

The principal assumptions, assessments and reporting principles used in the preparation of the data were detailed in Note 29 C in the financial statements as of December 31, 2015.

For details regarding administrative segments, see Note 13 below.

**B. Classification of customers in certain cases.** It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

### C. Changes in classification

- (1) Classification of collections on account of prior years, in accordance with the segment to which the customer had been attached immediately prior to the date of initial classification of the debt as problematic.
- (2) Derivatives – classification of all activity in derivatives to the financial management segment.
- (3) Reclassification of customers between segments, in view of improved data made available in respect of these customers.

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

## B. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

| Unaudited   |             |                 |                             |                   |                  |
|---|-------------|-----------------|-----------------------------|-------------------|------------------|
| For the three months ended June 30, 2016  |             |                 |                             |                   |                  |
| Domestic operations   |             |                 |                             |                   |                  |
|   | Households  | Private Banking | Small and minute businesses | Medium businesses | Large businesses |
| in NIS millions   |             |                 |                             |                   |                  |
| Interest income From external sources   | 467         | -               | 369                         | 98                | 177              |
| Interest expenses To external sources   | 51          | 20              | 17                          | 2                 | 7                |
| Interest income, net From external sources  | 416         | (20)            | 352                         | 96                | 170              |
| Interest income, net Intersegmental   | (82)        | 32              | (32)                        | (23)              | (54)             |
| <b>Total Interest income, net</b>   | <b>334</b>  | <b>12</b>       | <b>320</b>                  | <b>73</b>         | <b>116</b>       |
| Non-interest financing income From external sources   | 233         | (88)            | 81                          | 25                | 56               |
| Non-interest financing income Intersegmental  | 93          | 103             | 63                          | 7                 | 2                |
| <b>Total Non-interest financing income</b>  | <b>326</b>  | <b>15</b>       | <b>144</b>                  | <b>32</b>         | <b>58</b>        |
| <b>Total income</b>   | <b>660</b>  | <b>27</b>       | <b>464</b>                  | <b>105</b>        | <b>174</b>       |
| Credit loss expenses (expenses reversal)  | 54          | 1               | -                           | (1)               | (27)             |
| Operating and other expenses From external sources  | 710         | 33              | 329                         | 78                | 66               |
| Profit (loss) before taxes  | (104)       | (7)             | 135                         | 28                | 135              |
| Provision for taxes (tax savings) on profit   | (31)        | (2)             | 52                          | 10                | 51               |
| <b>Profit (loss) after taxes</b>  | <b>(73)</b> | <b>(5)</b>      | <b>83</b>                   | <b>18</b>         | <b>84</b>        |
| Bank's share in operating income of affiliated companies                                    | -           | -               | -                           | -                 | -                |
| Net income (loss) from ordinary operations before the non-controlling rights holders        | (73)        | (5)             | 83                          | 18                | 84               |
| Net income (loss) from ordinary operations Attributed to the non-controlling rights holders | (11)        | -               | (3)                         | -                 | (2)              |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>                              | <b>(84)</b> | <b>(5)</b>      | <b>80</b>                   | <b>18</b>         | <b>82</b>        |
| Average Assets  | 47,495      | 239             | 30,987                      | 12,287            | 20,402           |
| Of which - Investment in Investee companies   | -           | -               | -                           | -                 | -                |
| Of which - Average credit to the public <sup>(3)</sup>                                      | 47,722      | 166             | 30,353                      | 12,314            | 20,765           |
| Balance of credit to the public at the end of the period <sup>(3)</sup>                     | 47,575      | 183             | 32,333                      | 14,237            | 19,467           |
| Balance of impaired debts   | 59          | -               | 837                         | 561               | 1,067            |
| Balance of debts (not impaired) in arrear for over ninety days                              | 363         | -               | 40                          | 4                 | -                |
| Average Liabilities   | 70,569      | 15,728          | 30,271                      | 7,297             | 13,367           |
| Of which - Average Deposits from the public   | 66,850      | 15,612          | 26,203                      | 6,504             | 10,701           |
| Balance of deposits from the public at the end of the period                                | 66,075      | 16,476          | 25,363                      | 6,286             | 11,422           |
| Average Risk-assets <sup>(1)</sup>  | 30,208      | 399             | 30,059                      | 16,301            | 27,135           |
| Balance of Risk-assets at the end of the period <sup>(1)</sup>                              | 32,658      | 417             | 31,680                      | 16,554            | 26,435           |
| Average assets under management <sup>(2)</sup>  | 34,640      | 17,935          | 24,010                      | 5,854             | 27,414           |
| Interest income, net:   |             |                 |                             |                   |                  |
| Margin from credit activity   | 287         | 1               | 307                         | 70                | 112              |
| Margin from deposits activity   | 47          | 11              | 13                          | 3                 | 4                |
| Other   | -           | -               | -                           | -                 | -                |
| <b>Total Interest income, net</b>   | <b>334</b>  | <b>12</b>       | <b>320</b>                  | <b>73</b>         | <b>116</b>       |

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Balance of credit to the public – the recorded amount is presented.

(4) See Note 17 C to the condensed financial statements.



|  | Institutional<br>bodies | Financial<br>management | Total<br>Domestic<br>operations | International operations |                        |           | total<br>International<br>operations | total        |
|--|-------------------------|-------------------------|---------------------------------|--------------------------|------------------------|-----------|--------------------------------------|--------------|
|  |                         |                         |                                 | Private<br>Individuals   | business<br>operations | Other     |                                      |              |
|  | 3                       | 119                     | 1,233                           | 18                       | 166                    | 77        | 261                                  | 1,494        |
|  | 7                       | 158                     | 262                             | 19                       | 5                      | 53        | 77                                   | 339          |
|  | (4)                     | (39)                    | 971                             | (1)                      | 161                    | 24        | 184                                  | 1,155        |
|  | 8                       | 151                     | -                               | 54                       | (60)                   | 6         | -                                    | -            |
|  | <b>4</b>                | <b>112</b>              | <b>971</b>                      | <b>53</b>                | <b>101</b>             | <b>30</b> | <b>184</b>                           | <b>1,155</b> |
|  | (8)                     | <sup>(4)</sup> 738      | 1,037                           | 25                       | 17                     | 9         | 51                                   | 1,088        |
|  | 10                      | (278)                   | -                               | -                        | -                      | -         | -                                    | -            |
|  | <b>2</b>                | <b>460</b>              | <b>1,037</b>                    | <b>25</b>                | <b>17</b>              | <b>9</b>  | <b>51</b>                            | <b>1,088</b> |
|  | <b>6</b>                | <b>572</b>              | <b>2,008</b>                    | <b>78</b>                | <b>118</b>             | <b>39</b> | <b>235</b>                           | <b>2,243</b> |
|  | 1                       | -                       | 28                              | -                        | 24                     | 6         | 30                                   | 58           |
|  | 20                      | <sup>(4)</sup> 91       | 1,327                           | 46                       | 62                     | 29        | 137                                  | 1,464        |
|  | (15)                    | 481                     | 653                             | 32                       | 32                     | 4         | 68                                   | 721          |
|  | (3)                     | 169                     | 246                             | 11                       | 13                     | 2         | 26                                   | 272          |
|  | <b>(12)</b>             | <b>312</b>              | <b>407</b>                      | <b>21</b>                | <b>19</b>              | <b>2</b>  | <b>42</b>                            | <b>449</b>   |
|  | -                       | (2)                     | (2)                             | -                        | -                      | -         | -                                    | (2)          |
|  | (12)                    | 310                     | 405                             | 21                       | 19                     | 2         | 42                                   | 447          |
|  | -                       | (38)                    | (54)                            | -                        | -                      | -         | -                                    | (54)         |
|  | <b>(12)</b>             | <b>272</b>              | <b>351</b>                      | <b>21</b>                | <b>19</b>              | <b>2</b>  | <b>42</b>                            | <b>393</b>   |
|  | 478                     | 65,555                  | 177,443                         | 1,952                    | 19,375                 | 9,298     | 30,625                               | 208,068      |
|  | -                       | 139                     | 139                             | -                        | -                      | -         | -                                    | 139          |
|  | 456                     | -                       | 111,776                         | 1,520                    | 19,288                 | -         | 20,808                               | 132,584      |
|  | 432                     | -                       | 114,227                         | 1,574                    | 19,384                 | -         | 20,958                               | 135,185      |
|  | -                       | -                       | 2,524                           | -                        | 214                    | -         | 214                                  | 2,738        |
|  | -                       | -                       | 407                             | -                        | -                      | -         | -                                    | 407          |
|  | 11,687                  | 15,288                  | 164,207                         | 20,463                   | 6,780                  | 3,232     | 30,475                               | 194,682      |
|  | 11,636                  | -                       | 137,506                         | 18,509                   | 6,458                  | -         | 24,967                               | 162,473      |
|  | 10,793                  | -                       | 136,415                         | 19,172                   | 6,400                  | -         | 25,572                               | 161,987      |
|  | 581                     | 18,137                  | 122,820                         | 2,800                    | 20,964                 | 5         | 23,769                               | 146,589      |
|  | 567                     | 15,936                  | 124,247                         | 2,700                    | 21,113                 | -         | 23,813                               | 148,060      |
|  | 56,879                  | 6,476                   | 173,208                         | 12,397                   | -                      | -         | 12,397                               | 185,605      |
|  | 2                       | -                       | 779                             | 8                        | 68                     | -         | 76                                   | 855          |
|  | 2                       | -                       | 80                              | 45                       | 33                     | -         | 78                                   | 158          |
|  | -                       | 112                     | 112                             | -                        | -                      | 30        | 30                                   | 142          |
|  | <b>4</b>                | <b>112</b>              | <b>971</b>                      | <b>53</b>                | <b>101</b>             | <b>30</b> | <b>184</b>                           | <b>1,155</b> |

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

## B. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

| Unaudited   |             |                 |                             |                   |                  |
|---|-------------|-----------------|-----------------------------|-------------------|------------------|
| For the three months ended June 30, 2015  |             |                 |                             |                   |                  |
| Domestic operations   |             |                 |                             |                   |                  |
|   | Households  | Private Banking | Small and minute businesses | Medium businesses | Large businesses |
| in NIS millions   |             |                 |                             |                   |                  |
| Interest income From external sources   | 473         | 1               | 363                         | 95                | 166              |
| Interest expenses From external sources   | 77          | 21              | 22                          | 2                 | 8                |
| Interest income, net From external sources  | 396         | (20)            | 341                         | 93                | 158              |
| Interest income, net Intersegmental   | (127)       | 29              | (39)                        | (23)              | (44)             |
| <b>Total Interest income, net</b>   | <b>269</b>  | <b>9</b>        | <b>302</b>                  | <b>70</b>         | <b>114</b>       |
| Non-interest financing income From external sources   | 726         | 317             | 296                         | 50                | (2)              |
| Non-interest financing income Intersegmental  | (400)       | (297)           | (143)                       | (41)              | 64               |
| <b>Total Non-interest financing income</b>  | <b>326</b>  | <b>20</b>       | <b>153</b>                  | <b>9</b>          | <b>62</b>        |
| <b>Total income</b>   | <b>595</b>  | <b>29</b>       | <b>455</b>                  | <b>79</b>         | <b>176</b>       |
| Credit loss expenses (expenses reversal)  | 22          | (1)             | (6)                         | 38                | (90)             |
| Credit loss expenses (expenses reversal)  | 686         | 31              | 320                         | 86                | 56               |
| Profit (loss) before taxes  | (113)       | (1)             | 141                         | (45)              | 210              |
| Provision for taxes (tax savings) on profit   | (35)        | (2)             | 57                          | (14)              | 78               |
| <b>Profit (loss) after taxes</b>  | <b>(78)</b> | <b>1</b>        | <b>84</b>                   | <b>(31)</b>       | <b>132</b>       |
| Bank's share in operating income of affiliated companies                                    | -           | -               | -                           | -                 | -                |
| Net income from ordinary operations before Attributed to the non-controlling rights holders | (78)        | 1               | 84                          | (31)              | 132              |
| Net income from ordinary operations Attributed to the non-controlling rights holders        | (13)        | -               | (4)                         | (1)               | (2)              |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>                              | <b>(91)</b> | <b>1</b>        | <b>80</b>                   | <b>(32)</b>       | <b>130</b>       |
| Average Assets <sup>(1)</sup>   | 43,179      | 164             | 28,462                      | 11,780            | 19,245           |
| Of which - Investment in Investee companies   | -           | -               | -                           | -                 | -                |
| Of which - Average credit to the public <sup>(3)</sup>                                      | 40,873      | 88              | 28,814                      | 11,773            | 19,320           |
| Balance of credit to the public at the end of the period <sup>(3)</sup>                     | 42,165      | 131             | 29,583                      | 11,883            | 18,568           |
| Balance of impaired debts   | 77          | -               | 779                         | 664               | 1,349            |
| Balance of debts (not impaired) in arrear for over ninety days                              | 390         | -               | 28                          | -                 | -                |
| Average Liabilities <sup>(1)</sup>  | 69,031      | 13,208          | 27,040                      | 6,528             | 10,972           |
| Of which - Average Deposits from the public <sup>(1)</sup>                                  | 64,146      | 13,114          | 23,970                      | 5,796             | 9,419            |
| Balance of deposits from the public at the end of the period                                | 64,268      | 13,321          | 24,991                      | 5,621             | 7,729            |
| Average Risk-assets <sup>(1)</sup>  | 30,291      | 283             | 30,361                      | 15,307            | 25,713           |
| Balance of Risk-assets <sup>(1)</sup>   | 31,878      | 269             | 29,861                      | 15,229            | 25,846           |
| Average assets under management <sup>(2)</sup>  | 44,783      | 19,619          | 27,645                      | 4,788             | 27,736           |
| Interest income, net:   |             |                 |                             |                   |                  |
| Margin from credit activity   | 230         | 1               | 287                         | 67                | 111              |
| Margin from deposits activity   | 39          | 8               | 15                          | 3                 | 3                |
| Other   | -           | -               | -                           | -                 | -                |
| <b>Total Interest income, net</b>   | <b>269</b>  | <b>9</b>        | <b>302</b>                  | <b>70</b>         | <b>114</b>       |

Footnotes:

(1) Risk weighed assets – as computed for capital adequacy

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Balance of credit to the public – the recorded amount is presented.

|  |                         |                         | International operations        |                        |                        |        |                                      |         |
|--|-------------------------|-------------------------|---------------------------------|------------------------|------------------------|--------|--------------------------------------|---------|
|  | Institutional<br>bodies | Financial<br>management | Total<br>Domestic<br>operations | Private<br>Individuals | business<br>operations | Other  | total<br>International<br>operations | total   |
|  |                         |                         |                                 |                        |                        |        |                                      |         |
|  | 1                       | 180                     | 1,279                           | 41                     | 157                    | 73     | 271                                  | 1,550   |
|  | 5                       | 244                     | 379                             | 16                     | 4                      | 56     | 76                                   | 455     |
|  | (4)                     | (64)                    | 900                             | 25                     | 153                    | 17     | 195                                  | 1,095   |
|  | 10                      | 194                     | -                               | 48                     | (50)                   | 2      | -                                    | -       |
|  | 6                       | 130                     | 900                             | 73                     | 103                    | 19     | 195                                  | 1,095   |
|  | 26                      | (717)                   | 696                             | 41                     | 14                     | 20     | 75                                   | 771     |
|  | (23)                    | 840                     | -                               | -                      | -                      | -      | -                                    | -       |
|  | 3                       | 123                     | 696                             | 41                     | 14                     | 20     | 75                                   | 771     |
|  | 9                       | 253                     | 1,596                           | 114                    | 117                    | 39     | 270                                  | 1,866   |
|  | 1                       | -                       | (36)                            | -                      | 8                      | -      | 8                                    | (28)    |
|  | 16                      | 39                      | 1,234                           | 93                     | 66                     | 25     | 184                                  | 1,418   |
|  | (8)                     | 214                     | 398                             | 21                     | 43                     | 14     | 78                                   | 476     |
|  | (3)                     | 77                      | 158                             | 10                     | 16                     | 6      | 32                                   | 190     |
|  | (5)                     | 137                     | 240                             | 11                     | 27                     | 8      | 46                                   | 286     |
|  | -                       | 2                       | 2                               | -                      | -                      | -      | -                                    | 2       |
|  | (5)                     | 139                     | 242                             | 11                     | 27                     | 8      | 46                                   | 288     |
|  | -                       | 2                       | (18)                            | -                      | -                      | -      | -                                    | (18)    |
|  | (5)                     | 141                     | 224                             | 11                     | 27                     | 8      | 46                                   | 270     |
|  | 196                     | 67,842                  | 170,868                         | 4,648                  | 19,219                 | 11,213 | 35,080                               | 205,948 |
|  | -                       | 140                     | 140                             | -                      | -                      | -      | -                                    | 140     |
|  | 147                     | -                       | 101,015                         | 3,060                  | 18,645                 | -      | 21,705                               | 122,720 |
|  | 188                     | -                       | 102,518                         | 2,171                  | 17,568                 | -      | 19,739                               | 122,257 |
|  | -                       | -                       | 2,869                           | -                      | 252                    | -      | 252                                  | 3,121   |
|  | -                       | -                       | 418                             | -                      | 1                      | -      | 1                                    | 419     |
|  | 11,508                  | 19,726                  | 158,013                         | 24,451                 | 6,189                  | 4,634  | 35,274                               | 193,287 |
|  | 11,471                  | -                       | 127,916                         | 23,727                 | 5,755                  | -      | 29,482                               | 157,398 |
|  | 11,588                  | -                       | 127,518                         | 18,905                 | 5,335                  | -      | 24,240                               | 151,758 |
|  | 371                     | 12,657                  | 114,983                         | 6,112                  | 19,658                 | 6      | 25,776                               | 140,759 |
|  | 389                     | 12,649                  | 116,121                         | 4,346                  | 19,619                 | 3      | 23,968                               | 140,089 |
|  | 51,023                  | 2,950                   | 178,544                         | 16,361                 | -                      | -      | 16,361                               | 194,905 |
|  |                         |                         |                                 |                        |                        |        |                                      |         |
|  | 1                       | -                       | 697                             | 14                     | 71                     | -      | 85                                   | 782     |
|  | 5                       | -                       | 73                              | 59                     | 32                     | -      | 91                                   | 164     |
|  | -                       | 130                     | 130                             | -                      | -                      | 19     | 19                                   | 149     |
|  | 6                       | 130                     | 900                             | 73                     | 103                    | 19     | 195                                  | 1,095   |

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

## B. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

| Unaudited  |              |                 |                             |                   |                  |
|--|--------------|-----------------|-----------------------------|-------------------|------------------|
| For the six months ended June 30, 2016   |              |                 |                             |                   |                  |
| Domestic operations  |              |                 |                             |                   |                  |
|  | Households   | Private Banking | Small and minute businesses | Medium businesses | Large businesses |
| in NIS millions  |              |                 |                             |                   |                  |
| Interest income From external sources  | 797          | 1               | 703                         | 187               | 335              |
| Interest expenses To external sources  | 73           | 33              | 27                          | 4                 | 12               |
| Interest income, net From external sources   | 724          | (32)            | 676                         | 183               | 323              |
| Interest income, net Intersegmental  | (80)         | 57              | (52)                        | (36)              | (83)             |
| <b>Total Interest income, net</b>  | <b>644</b>   | <b>25</b>       | <b>624</b>                  | <b>147</b>        | <b>240</b>       |
| Non-interest financing income From external sources  | 723          | 139             | 336                         | 77                | 64               |
| Non-interest financing income Intersegmental   | (91)         | (105)           | (43)                        | (9)               | 46               |
| <b>Total Non-interest financing income</b>   | <b>632</b>   | <b>34</b>       | <b>293</b>                  | <b>68</b>         | <b>110</b>       |
| <b>Total income</b>  | <b>1,276</b> | <b>59</b>       | <b>917</b>                  | <b>215</b>        | <b>350</b>       |
| Credit loss expenses (expenses reversal)   | 91           | 1               | 43                          | 23                | (104)            |
| Operating and other expenses From external sources   | 1,423        | 66              | 673                         | 158               | 128              |
| Profit (loss) before taxes   | (238)        | (8)             | 201                         | 34                | 326              |
| Provision for taxes (tax savings) on profit  | (62)         | (2)             | 83                          | 14                | 119              |
| <b>Profit (loss) after taxes</b>   | <b>(176)</b> | <b>(6)</b>      | <b>118</b>                  | <b>20</b>         | <b>207</b>       |
| Bank's share in operating income of affiliated companies   | -            | -               | -                           | -                 | -                |
| Net income (loss) from ordinary operations before Attributed to the non-controlling rights holders | (176)        | (6)             | 118                         | 20                | 207              |
| Net income (loss) from ordinary operations Attributed to the non-controlling rights holders        | (19)         | -               | (6)                         | (1)               | (4)              |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>                                     | <b>(195)</b> | <b>(6)</b>      | <b>112</b>                  | <b>19</b>         | <b>203</b>       |
| Average Assets   | 47,375       | 240             | 30,985                      | 12,420            | 19,640           |
| Of which - Investment in Investee companies  | -            | -               | -                           | -                 | -                |
| Average credit to the public <sup>(3)</sup>  | 47,033       | 167             | 30,511                      | 12,424            | 19,798           |
| Balance of credit to the public at the end of the period <sup>(3)</sup>                            | 47,575       | 183             | 32,333                      | 14,237            | 19,467           |
| Balance of impaired debts  | 59           | -               | 837                         | 561               | 1,067            |
| Balance of debts (not impaired) in arrear for over ninety days                                     | 363          | -               | 40                          | 4                 | -                |
| Average Liabilities  | 69,950       | 15,619          | 30,089                      | 7,169             | 13,204           |
| Of which - Average Deposits from the public  | 66,366       | 15,507          | 26,129                      | 6,400             | 10,523           |
| Balance of deposits from the public at the end of the period                                       | 66,075       | 16,476          | 25,363                      | 6,286             | 11,422           |
| Average Risk-assets <sup>(1)</sup>   | 31,674       | 397             | 31,337                      | 16,394            | 25,521           |
| Balance of Risk-assets at the end of the period <sup>(1)</sup>                                     | 32,658       | 417             | 31,680                      | 16,554            | 26,435           |
| Average assets under management <sup>(2)</sup>   | 36,614       | 18,757          | 24,532                      | 5,194             | 27,275           |
| Interest income, net:  |              |                 |                             |                   |                  |
| Margin from credit activity  | 559          | 1               | 594                         | 140               | 232              |
| Margin from deposits activity  | 85           | 24              | 30                          | 7                 | 8                |
| Other  | -            | -               | -                           | -                 | -                |
| <b>Total Interest income, net</b>  | <b>644</b>   | <b>25</b>       | <b>624</b>                  | <b>147</b>        | <b>240</b>       |

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) 'See Note 17 C to the condensed financial statements.

|  |                         |                         | International operations        |                        |                        |       |                                      |         |
|--|-------------------------|-------------------------|---------------------------------|------------------------|------------------------|-------|--------------------------------------|---------|
|  | Institutional<br>bodies | Financial<br>management | Total<br>Domestic<br>operations | Private<br>Individuals | business<br>operations | Other | total<br>International<br>operations | total   |
|  | 7                       | 163                     | 2,193                           | 35                     | 335                    | 157   | 527                                  | 2,720   |
|  | 11                      | 192                     | 352                             | 39                     | 10                     | 107   | 156                                  | 508     |
|  | (4)                     | (29)                    | 1,841                           | (4)                    | 325                    | 50    | 371                                  | 2,212   |
|  | 14                      | 180                     | -                               | 106                    | (119)                  | 13    | -                                    | -       |
|  | 10                      | 151                     | 1,841                           | 102                    | 206                    | 63    | 371                                  | 2,212   |
|  | 21                      | (4)391                  | 1,751                           | 73                     | 29                     | 17    | 119                                  | 1,870   |
|  | (15)                    | 217                     | -                               | -                      | -                      | -     | -                                    | -       |
|  | 6                       | 608                     | 1,751                           | 73                     | 29                     | 17    | 119                                  | 1,870   |
|  | 16                      | 759                     | 3,592                           | 175                    | 235                    | 80    | 490                                  | 4,082   |
|  | 1                       | -                       | 55                              | 1                      | 31                     | 17    | 49                                   | 104     |
|  | 37                      | (4)116                  | 2,601                           | 102                    | 125                    | 53    | 280                                  | 2,881   |
|  | (22)                    | 643                     | 936                             | 72                     | 79                     | 10    | 161                                  | 1,097   |
|  | (6)                     | 247                     | 393                             | 28                     | 29                     | 5     | 62                                   | 455     |
|  | (16)                    | 396                     | 543                             | 44                     | 50                     | 5     | 99                                   | 642     |
|  | -                       | (3)                     | (3)                             | -                      | -                      | -     | -                                    | (3)     |
|  | (16)                    | 393                     | 540                             | 44                     | 50                     | 5     | 99                                   | 639     |
|  | -                       | (37)                    | (67)                            | -                      | -                      | -     | -                                    | (67)    |
|  | (16)                    | 356                     | 473                             | 44                     | 50                     | 5     | 99                                   | 572     |
|  | 485                     | 65,280                  | 176,425                         | 2,524                  | 19,684                 | 9,468 | 31,676                               | 208,101 |
|  | -                       | 140                     | 140                             | -                      | -                      | -     | -                                    | 140     |
|  | 436                     | -                       | 110,369                         | 1,528                  | 19,568                 | -     | 21,096                               | 131,465 |
|  | 432                     | -                       | 114,227                         | 1,574                  | 19,384                 | -     | 20,958                               | 135,185 |
|  | -                       | -                       | 2,524                           | -                      | 214                    | -     | 214                                  | 2,738   |
|  | -                       | -                       | 407                             | -                      | -                      | -     | -                                    | 407     |
|  | 11,191                  | 15,944                  | 163,166                         | 20,971                 | 6,853                  | 3,686 | 31,510                               | 194,676 |
|  | 11,146                  | -                       | 136,071                         | 19,305                 | 6,559                  | -     | 25,864                               | 161,935 |
|  | 10,793                  | -                       | 136,415                         | 19,172                 | 6,400                  | -     | 25,572                               | 161,987 |
|  | 602                     | 15,470                  | 121,395                         | 2,492                  | 21,224                 | 8     | 23,724                               | 145,119 |
|  | 567                     | 15,936                  | 124,247                         | 2,700                  | 21,113                 | -     | 23,813                               | 148,060 |
|  | 55,732                  | 6,376                   | 174,480                         | 12,641                 | -                      | -     | 12,641                               | 187,121 |
|  | 4                       | -                       | 1,530                           | 16                     | 136                    | -     | 152                                  | 1,682   |
|  | 6                       | -                       | 160                             | 86                     | 70                     | -     | 156                                  | 316     |
|  | -                       | 151                     | 151                             | -                      | -                      | 63    | 63                                   | 214     |
|  | 10                      | 151                     | 1,841                           | 102                    | 206                    | 63    | 371                                  | 2,212   |

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

## B. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

| Unaudited   |              |                 |                             |                   |                  |
|---|--------------|-----------------|-----------------------------|-------------------|------------------|
| For the six months ended June 30, 2015  |              |                 |                             |                   |                  |
| Domestic operations   |              |                 |                             |                   |                  |
|   | Households   | Private Banking | Small and minute businesses | Medium businesses | Large businesses |
| in NIS millions   |              |                 |                             |                   |                  |
| Interest income From external sources   | 731          | 1               | 692                         | 177               | 297              |
| Interest expenses To external sources   | 70           | 31              | 28                          | 4                 | 13               |
| Interest income, net From external sources  | 661          | (30)            | 664                         | 173               | 284              |
| Interest income, net Intersegmental   | (81)         | 46              | (65)                        | (32)              | (76)             |
| <b>Total Interest income, net</b>   | <b>580</b>   | <b>16</b>       | <b>599</b>                  | <b>141</b>        | <b>208</b>       |
| Non-interest financing income From external sources   | 1,273        | 370             | 426                         | 57                | 58               |
| Non-interest financing income Intersegmental  | (638)        | (335)           | (111)                       | (13)              | 67               |
| <b>Total Non-interest financing income</b>  | <b>635</b>   | <b>35</b>       | <b>315</b>                  | <b>44</b>         | <b>125</b>       |
| <b>Total income</b>   | <b>1,215</b> | <b>51</b>       | <b>914</b>                  | <b>185</b>        | <b>333</b>       |
| Credit loss expenses (expenses reversal)  | 6            | (1)             | 6                           | 56                | (76)             |
| Operating and other expenses From external sources  | 1,380        | 62              | 645                         | 158               | 115              |
| Profit (loss) before taxes  | (171)        | (10)            | 263                         | (29)              | 294              |
| Provision for taxes (tax savings) on profit   | (53)         | (4)             | 101                         | (9)               | 110              |
| <b>Profit (loss) after taxes</b>  | <b>(118)</b> | <b>(6)</b>      | <b>162</b>                  | <b>(20)</b>       | <b>184</b>       |
| Bank's share in operating income of affiliated companies                                    | -            | -               | -                           | -                 | -                |
| Net income from ordinary operations before Attributed to the non-controlling rights holders | (118)        | (6)             | 162                         | (20)              | 184              |
| Net income from ordinary operations Attributed to the non-controlling rights holders        | (18)         | -               | (8)                         | (2)               | (5)              |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>                              | <b>(136)</b> | <b>(6)</b>      | <b>154</b>                  | <b>(22)</b>       | <b>179</b>       |
| Average Assets  | 43,797       | 181             | 28,573                      | 11,660            | 19,262           |
| Of which - Investment in Investee companies   | -            | -               | -                           | -                 | -                |
| Average credit to the public at the end of the period <sup>(3)</sup>                        | 41,746       | 95              | 28,398                      | 11,569            | 19,256           |
| Balance of credit to the public <sup>(3)</sup>  | 42,165       | 131             | 29,583                      | 11,883            | 18,568           |
| Balance of impaired debts   | 77           | -               | 779                         | 664               | 1,349            |
| Balance of debts (not impaired) in arrear for over ninety days                              | 390          | -               | 28                          | -                 | -                |
| Average Liabilities   | 68,823       | 13,115          | 27,332                      | 6,237             | 11,575           |
| Of which - Average Deposits from the public   | 64,195       | 13,022          | 24,172                      | 5,536             | 9,813            |
| Balance of deposits from the public at the end of the period                                | 64,268       | 13,321          | 24,991                      | 5,621             | 7,729            |
| Average Risk-assets <sup>(1)</sup>  | 30,659       | 266             | 30,039                      | 15,199            | 24,382           |
| Balance of Risk-assets at the end of the period <sup>(1)</sup>                              | 31,878       | 269             | 29,861                      | 15,229            | 25,846           |
| Average assets under management <sup>(2)</sup>  | 44,249       | 18,745          | 27,728                      | 4,638             | 27,320           |
| Interest income, net:   |              |                 |                             |                   |                  |
| Margin from credit activity   | 485          | 1               | 569                         | 135               | 201              |
| Margin from deposits activity   | 95           | 15              | 30                          | 6                 | 7                |
| Other   | -            | -               | -                           | -                 | -                |
| <b>Total Interest income, net</b>   | <b>580</b>   | <b>16</b>       | <b>599</b>                  | <b>141</b>        | <b>208</b>       |

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

|  |                         |                         | International operations        |                        |                        |       |                                      |         |
|--|-------------------------|-------------------------|---------------------------------|------------------------|------------------------|-------|--------------------------------------|---------|
|  | Institutional<br>bodies | Financial<br>management | Total<br>Domestic<br>operations | Private<br>Individuals | business<br>operations | Other | total<br>International<br>operations | total   |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | 4                       | 169                     | 2,071                           | 82                     | 330                    | 149   | 561                                  | 2,632   |
|  | 12                      | 205                     | 363                             | 31                     | 8                      | 115   | 154                                  | 517     |
|  | (8)                     | (36)                    | 1,708                           | 51                     | 322                    | 34    | 407                                  | 2,115   |
|  | 17                      | 191                     | -                               | 90                     | (100)                  | 10    | -                                    | -       |
|  | 9                       | 155                     | 1,708                           | 141                    | 222                    | 44    | 407                                  | 2,115   |
|  | 36                      | (741)                   | 1,479                           | 97                     | 27                     | 32    | 156                                  | 1,635   |
|  | (29)                    | 1,059                   | -                               | -                      | -                      | -     | -                                    | -       |
|  | 7                       | 318                     | 1,479                           | 97                     | 27                     | 32    | 156                                  | 1,635   |
|  | 16                      | 473                     | 3,187                           | 238                    | 249                    | 76    | 563                                  | 3,750   |
|  | 1                       | -                       | (8)                             | 1                      | 11                     | -     | 12                                   | 4       |
|  | 32                      | 73                      | 2,465                           | 191                    | 140                    | 55    | 386                                  | 2,851   |
|  | (17)                    | 400                     | 730                             | 46                     | 98                     | 21    | 165                                  | 895     |
|  | (6)                     | 145                     | 284                             | 17                     | 34                     | 9     | 60                                   | 344     |
|  | (11)                    | 255                     | 446                             | 29                     | 64                     | 12    | 105                                  | 551     |
|  | -                       | 2                       | 2                               | -                      | -                      | -     | -                                    | 2       |
|  | (11)                    | 257                     | 448                             | 29                     | 64                     | 12    | 105                                  | 553     |
|  | -                       | 2                       | (31)                            | -                      | -                      | -     | -                                    | (31)    |
|  | (11)                    | 259                     | 417                             | 29                     | 64                     | 12    | 105                                  | 522     |
|  | 175                     | 68,224                  | 171,872                         | 6,577                  | 19,776                 | 8,890 | 35,243                               | 207,115 |
|  | -                       | 140                     | 140                             | -                      | -                      | -     | -                                    | 140     |
|  | 144                     | -                       | 101,208                         | 3,097                  | 18,886                 | -     | 21,983                               | 123,191 |
|  | 188                     | -                       | 102,518                         | 2,171                  | 17,568                 | -     | 19,739                               | 122,257 |
|  | -                       | -                       | 2,869                           | -                      | 252                    | -     | 252                                  | 3,121   |
|  | -                       | -                       | 418                             | -                      | 1                      | -     | 1                                    | 419     |
|  | 11,828                  | 20,112                  | 159,022                         | 24,644                 | 6,187                  | 4,611 | 35,442                               | 194,464 |
|  | 11,803                  | -                       | 128,541                         | 23,547                 | 5,932                  | -     | 29,479                               | 158,020 |
|  | 11,588                  | -                       | 127,518                         | 18,905                 | 5,335                  | -     | 24,240                               | 151,758 |
|  | 344                     | 14,115                  | 115,004                         | 6,532                  | 19,887                 | 4     | 26,423                               | 141,427 |
|  | 389                     | 12,649                  | 116,121                         | 4,346                  | 19,619                 | 3     | 23,968                               | 140,089 |
|  | 49,106                  | 3,266                   | 175,052                         | 16,823                 | -                      | -     | 16,823                               | 191,875 |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | 1                       | -                       | 1,392                           | 27                     | 160                    | -     | 187                                  | 1,579   |
|  | 8                       | -                       | 161                             | 114                    | 62                     | -     | 176                                  | 337     |
|  | -                       | 155                     | 155                             | -                      | -                      | 44    | 44                                   | 199     |
|  | 9                       | 155                     | 1,708                           | 141                    | 222                    | 44    | 407                                  | 2,115   |

## 12. REGULATORY OPERATING SEGMENTS – CONSOLIDATED (CONTINUED)

## B. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

|   | Audited   |                 |                             |                   |                  |
|---|---|-----------------|-----------------------------|-------------------|------------------|
|   | <sup>(6)</sup> For the year ended December 31, 2015 |                 |                             |                   |                  |
|   | Domestic operations                                 |                 |                             |                   |                  |
|   | Households  | Private Banking | Small and minute businesses | Medium businesses | Large businesses |
|   | in NIS millions                                     |                 |                             |                   |                  |
| Interest income From external sources   | 1,506   | 3               | 1,398                       | 356               | 588              |
| Interest expenses To external sources   | 139   | 65              | 53                          | 7                 | 23               |
| Interest income, net From external sources  | 1,367   | (62)            | 1,345                       | 349               | 565              |
| Interest income, net Intersegmental   | (176)   | 96              | (127)                       | (63)              | (148)            |
| <b>Total Interest income, net</b>   | <b>1,191</b>  | <b>34</b>       | <b>1,218</b>                | <b>286</b>        | <b>417</b>       |
| <sup>(5)</sup> Non-interest financing income From external sources                          | 1,711   | 237             | 633                         | 134               | 186              |
| <sup>(5)</sup> Non-interest financing income Intersegmental                                 | (423)   | (168)           | (19)                        | -                 | 22               |
| <b>Total Non-interest financing income</b>  | <b>1,288</b>  | <b>69</b>       | <b>614</b>                  | <b>134</b>        | <b>208</b>       |
| <b>Total income</b>   | <b>2,479</b>  | <b>103</b>      | <b>1,832</b>                | <b>420</b>        | <b>625</b>       |
| Credit loss expenses (expenses reversal) <sup>(4)</sup>                                     | 72  | (1)             | 32                          | 89                | (20)             |
| Operating and other expenses From external sources  | 2,766   | 120             | 1,310                       | 310               | 239              |
| Profit (loss) before taxes  | (359)   | (16)            | 490                         | 21                | 406              |
| Provision for taxes (tax savings) on profit   | (100)   | (5)             | 197                         | 11                | 149              |
| <b>Profit (loss) after taxes</b>  | <b>(259)</b>  | <b>(11)</b>     | <b>293</b>                  | <b>10</b>         | <b>257</b>       |
| Bank's share in operating income of affiliated companies                                    | -   | -               | -                           | -                 | -                |
| Net income from ordinary operations before Attributed to the non-controlling rights holders | (259)   | (11)            | 293                         | 10                | 257              |
| Net income from ordinary operations Attributed to the non-controlling rights holders        | (34)  | -               | (12)                        | (3)               | (8)              |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>                              | <b>(293)</b>  | <b>(11)</b>     | <b>281</b>                  | <b>7</b>          | <b>249</b>       |
| Average Assets <sup>(5)</sup>   | 44,320  | 193             | 29,505                      | 11,814            | 19,603           |
| Of which - Investment in Investee companies   | -   | -               | -                           | -                 | -                |
| Average credit to the public <sup>(3)</sup>   | 43,747  | 118             | 29,003                      | 11,719            | 18,212           |
| Balance of credit to the public at the end of the period <sup>(3)</sup>                     | 44,196  | 158             | 31,308                      | 13,205            | 18,614           |
| Balance of impaired debts   | 64  | -               | 1,363                       | 617               | 657              |
| Balance of debts (not impaired) in arrear for over ninety days                              | 384   | 1               | 21                          | 6                 | -                |
| Average Liabilities <sup>(5)</sup>  | 65,663  | 13,670          | 28,918                      | 6,323             | 11,157           |
| Of which - Average Deposits from the public   | 63,380  | 13,544          | 25,475                      | 5,466             | 9,456            |
| Balance of deposits from the public at the end of the period                                | 63,884  | 15,279          | 26,043                      | 5,735             | 9,577            |
| Average Risk-assets <sup>(1)</sup>  | 33,463  | 858             | 29,857                      | 13,798            | 24,596           |
| Balance of Risk-assets at the end of the period <sup>(1)</sup>                              | 34,719  | 1,016           | 30,684                      | 14,359            | 24,655           |
| Average assets under management <sup>(2)</sup>  | 42,733  | 18,957          | 26,807                      | 4,510             | 27,231           |
| Interest income, net:   |   |                 |                             |                   |                  |
| Margin from credit activity   | 1,019   | 1               | 1,157                       | 275               | 405              |
| Margin from deposits activity   | 172   | 33              | 61                          | 11                | 12               |
| Other   | -   | -               | -                           | -                 | -                |
| <b>Total Interest income, net</b>   | <b>1,191</b>  | <b>34</b>       | <b>1,218</b>                | <b>286</b>        | <b>417</b>       |

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified, See C(1) above.

(5) Reclassified, See C(2) above.

(6) Reclassified, See C(3) above.



|  |                         |                         | International operations        |                        |                        |       |                                      |         |
|--|-------------------------|-------------------------|---------------------------------|------------------------|------------------------|-------|--------------------------------------|---------|
|  | Institutional<br>bodies | Financial<br>management | Total<br>Domestic<br>operations | Private<br>Individuals | business<br>operations | Other | total<br>International<br>operations | total   |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | 9                       | 306                     | 4,166                           | 135                    | 663                    | 303   | 1,101                                | 5,267   |
|  | 23                      | 427                     | 737                             | 67                     | 19                     | 219   | 305                                  | 1,042   |
|  | (14)                    | (121)                   | 3,429                           | 68                     | 644                    | 84    | 796                                  | 4,225   |
|  | 30                      | 388                     | -                               | 196                    | (219)                  | 23    | -                                    | -       |
|  | 16                      | 267                     | 3,429                           | 264                    | 425                    | 107   | 796                                  | 4,225   |
|  | 12                      | (121)                   | 2,792                           | 156                    | 64                     | 41    | 261                                  | 3,053   |
|  | -                       | 588                     | -                               | -                      | -                      | -     | -                                    | -       |
|  | 12                      | 467                     | 2,792                           | 156                    | 64                     | 41    | 261                                  | 3,053   |
|  | 28                      | 734                     | 6,221                           | 420                    | 489                    | 148   | 1,057                                | 7,278   |
|  | 5                       | -                       | 177                             | 1                      | 8                      | 1     | 10                                   | 187     |
|  | 63                      | 137                     | 4,945                           | 392                    | 297                    | 91    | 780                                  | 5,725   |
|  | (40)                    | 597                     | 1,099                           | 27                     | 184                    | 56    | 267                                  | 1,366   |
|  | (14)                    | 212                     | 450                             | 31                     | 66                     | 21    | 118                                  | 568     |
|  | (26)                    | 385                     | 649                             | (4)                    | 118                    | 35    | 149                                  | 798     |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | -                       | 9                       | 9                               | -                      | -                      | -     | -                                    | 9       |
|  | (26)                    | 394                     | 658                             | (4)                    | 118                    | 35    | 149                                  | 807     |
|  | -                       | -                       | (57)                            | -                      | -                      | -     | -                                    | (57)    |
|  | (26)                    | 394                     | 601                             | (4)                    | 118                    | 35    | 149                                  | 750     |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | 264                     | 65,112                  | 170,811                         | 8,083                  | 19,274                 | 7,500 | 34,857                               | 205,668 |
|  | -                       | 140                     | 140                             | -                      | -                      | -     | -                                    | 140     |
|  | 222                     | -                       | 103,021                         | 2,468                  | 19,111                 | -     | 21,579                               | 124,600 |
|  | 466                     | -                       | 107,947                         | 1,578                  | 19,743                 | -     | 21,321                               | 129,268 |
|  | -                       | -                       | 2,701                           | -                      | 243                    | -     | 243                                  | 2,944   |
|  | -                       | -                       | 412                             | -                      | -                      | -     | -                                    | 412     |
|  | 11,322                  | 20,578                  | 157,631                         | 25,863                 | 5,813                  | 3,378 | 35,054                               | 192,685 |
|  | 11,287                  | -                       | 128,608                         | 24,965                 | 4,165                  | -     | 29,130                               | 157,738 |
|  | 11,735                  | -                       | 132,253                         | 20,268                 | 4,883                  | -     | 25,151                               | 157,404 |
|  | 354                     | 13,661                  | 116,587                         | 5,291                  | 20,230                 | 5     | 25,526                               | 142,113 |
|  | 531                     | 12,351                  | 118,315                         | 2,649                  | 21,479                 | 17    | 24,145                               | 142,460 |
|  | 50,730                  | 3,937                   | 174,905                         | 15,673                 | -                      | -     | 15,673                               | 190,578 |
|  |                         |                         |                                 |                        |                        |       |                                      |         |
|  | 3                       | -                       | 2,860                           | 49                     | 299                    | -     | 348                                  | 3,208   |
|  | 13                      | -                       | 302                             | 215                    | 126                    | -     | 341                                  | 643     |
|  | -                       | 267                     | 267                             | -                      | -                      | 107   | 107                                  | 374     |
|  | 16                      | 267                     | 3,429                           | 264                    | 425                    | 107   | 796                                  | 4,225   |

## 13. MANAGERIAL OPERATING SEGMENTS

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### A. General

1. According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital Markets and Investments, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
  - **Segments under responsibility of the Banking Division** (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):
 

**Retail banking** – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

**Middle Market banking** - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment.
  - **Segment under the responsibility of the Corporate Division** (at the Bank; under the responsibility of the Corporate-Commercial Division of MDB):
 

**Corporate banking segment** - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
  - **Segment under the responsibility of the Financial Markets Division** (at the Bank; under the responsibility of the Financial Division of MDB):
 

**Financial activity segment** – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.

### 13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

#### A. General (continued)

- **Segments including the activities of the principal subsidiaries in the Group:**

**Discount Capital Markets and Investments** – Activity in the field of investment banking, of investments (in private equity funds, in venture capital funds and in other non-financial investments), in the field of securities distribution and in the underwriting and management of issuance.

**Discount Bancorp** – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB New York.

**ICC** – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- **Other segment** – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. **A change in the organizational structure.** In the financial statements as of December 31, 2015 and March 31, 2016, the customer asset segment was presented in accordance with the organizational structure that was in effect in the respective reporting periods. In view of the decision of the Bank's Board of Directors to abolish the Customer Asset Division and attach its units to existing divisions/groups at the Bank, the said segment is no longer presented separately. The data relating to private banking customers are presented now as part of the retail banking segment. The comparative data has been restated accordingly.

## 13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

## B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS

|   | Unaudited                                |                             |                      |                         |  |
|---|--|-----------------------------|----------------------|-------------------------|--|
|   | Retail<br>banking <sup>(2)</sup>         | Middle<br>market<br>banking | Corporate<br>banking | Financial<br>management | Discount<br>Capital<br>Market <sup>(1)</sup> |
|   | In NIS millions                          |                             |                      |                         |  |
|   | For the three months ended June 30, 2016 |                             |                      |                         |  |
| Interest income, net  | 488                                      | 89                          | 223                  | 78                      | 1  |
| Non-interest income   | 271                                      | 27                          | 91                   | 145                     | 20   |
| <b>Total income</b>   | <b>759</b>                               | <b>116</b>                  | <b>314</b>           | <b>223</b>              | <b>21</b>                                    |
| Credit loss expenses (expenses reversal)                                  | 32                                       | 14                          | (41)                 | 6                       | -  |
| Operating and other expenses  | 797                                      | 85                          | 120                  | 43                      | 7  |
| Income (loss) before taxes  | (70)                                     | 17                          | 235                  | 174                     | 14   |
| Provision for taxes on income   | (16)                                     | 7                           | 87                   | 65                      | 2  |
| Income (loss) after taxes   | (54)                                     | 10                          | 148                  | 109                     | 12   |
| Bank's share in income of affiliated companies, net of tax effect         | -  | -                           | -                    | 1                       | (3)  |
| Net income (loss) before attributed to the non-controlling rights holders | (54)                                     | 10                          | 148                  | 110                     | 9  |
| Net income attributed to the non-controlling rights holders               | -  | -                           | -                    | -                       | -  |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>            | <b>(54)</b>                              | <b>10</b>                   | <b>148</b>           | <b>110</b>              | <b>9</b>                                     |
| Balance of Assets at the end of the period                                | 58,723                                   | 12,052                      | 36,906               | 68,698                  | 1,180  |
| Balance of credit to the public at the end of the period                  | 57,682                                   | 11,995                      | 36,789               | 2,320                   | -  |
| Balance of deposits from the public at the end of the period              | 106,107                                  | 5,504                       | 24,198               | 5,631                   | -  |
|   | For the three months ended June 30, 2015 |                             |                      |                         |  |
| Interest income, net  | 445                                      | 88                          | 200                  | 89                      | -  |
| Non-interest income   | 278                                      | 23                          | 83                   | 66                      | 25   |
| <b>Total income</b>   | <b>723</b>                               | <b>111</b>                  | <b>283</b>           | <b>155</b>              | <b>25</b>                                    |
| Credit loss expenses (expenses reversal)                                  | 20                                       | (1)                         | (58)                 | (5)                     | -  |
| Operating and other expenses  | 776                                      | 82                          | 105                  | 55                      | 2  |
| Income (loss) before taxes  | (73)                                     | 30                          | 236                  | 105                     | 23   |
| Provision for taxes on income   | (18)                                     | 12                          | 91                   | 45                      | 3  |
| Income (loss) after taxes   | (55)                                     | 18                          | 145                  | 60                      | 20   |
| Bank's share in income of affiliated companies, net of tax effect         | -  | -                           | -                    | 4                       | (1)  |
| Net income (loss) before attributed to the non-controlling rights holders | (55)                                     | 18                          | 145                  | 64                      | 19   |
| Net income attributed to the non-controlling rights holders               | -  | -                           | -                    | -                       | -  |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>            | <b>(55)</b>                              | <b>18</b>                   | <b>145</b>           | <b>64</b>               | <b>19</b>                                    |
| Balance of Assets at the end of the period                                | 53,939                                   | 11,026                      | 32,824               | 69,531                  | 1,072  |
| Balance of credit to the public at the end of the period                  | 51,711                                   | 11,132                      | 32,563               | 1,275                   | -  |
| Balance of deposits from the public at the end of the period              | 98,028                                   | 5,587                       | 23,114               | 7,034                   | -  |

footnotes:

(1) The contribution to the Bank's business results.

(2) See A 3 above.

|  | Discount<br>Bancorp <sup>(1)</sup> | Israel<br>Credit<br>Cards <sup>(1)</sup> | other      | Adjustments | Total        |
|--|------------------------------------|--|------------|-------------|--------------|
|  | 187                                | 88                                       | -          | 1           | 1,155        |
|  | 50                                 | 508                                      | 14         | (38)        | 1,088        |
|  | <b>237</b>                         | <b>596</b>                               | <b>14</b>  | <b>(37)</b> | <b>2,243</b> |
|  | 29                                 | 18                                       | -          | -           | 58           |
|  | 136                                | 303                                      | 7          | (34)        | 1,464        |
|  | 72                                 | 275                                      | 7          | (3)         | 721          |
|  | 26                                 | 99                                       | 2          | -           | 272          |
|  | 46                                 | 176                                      | 5          | (3)         | 449          |
|  | -                                  | -  | -          | -           | (2)          |
|  | 46                                 | 176                                      | 5          | (3)         | 447          |
|  | -                                  | (54)                                     | -          | -           | (54)         |
|  | <b>46</b>                          | <b>122</b>                               | <b>5</b>   | <b>(3)</b>  | <b>393</b>   |
|  | 35,238                             | 11,623                                   | 5,278      | (20,816)    | 208,882      |
|  | 20,958                             | 11,254                                   | -          | (5,813)     | 135,185      |
|  | 25,535                             | 18                                       | -          | (5,006)     | 161,987      |
|  | 190                                | 73                                       | 8          | 2           | 1,095        |
|  | 66                                 | 237                                      | 31         | (38)        | 771          |
|  | <b>256</b>                         | <b>310</b>                               | <b>39</b>  | <b>(36)</b> | <b>1,866</b> |
|  | -                                  | 10                                       | 7          | (1)         | (28)         |
|  | 171                                | 230                                      | 32         | (35)        | 1,418        |
|  | 85                                 | 70                                       | -          | -           | 476          |
|  | 32                                 | 25                                       | 2          | (2)         | 190          |
|  | 53                                 | 45                                       | (2)        | 2           | 286          |
|  | -                                  | -  | -          | (1)         | 2            |
|  | 53                                 | 45                                       | (2)        | 1           | 288          |
|  | -                                  | (18)                                     | -          | -           | (18)         |
|  | <b>53</b>                          | <b>27</b>                                | <b>(2)</b> | <b>1</b>    | <b>270</b>   |
|  | 36,803                             | 10,293                                   | 8,832      | (20,658)    | 203,662      |
|  | 18,965                             | 10,025                                   | 774        | (4,188)     | 122,257      |
|  | 22,479                             | 16                                       | 1,728      | (6,228)     | 151,758      |

## 13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

## B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS

|   | Unaudited                        |                             |                      |                         |  |
|---|----------------------------------|-----------------------------|----------------------|-------------------------|--|
|   | Retail<br>banking <sup>(2)</sup> | Middle<br>market<br>banking | Corporate<br>banking | Financial<br>management | Discount<br>Capital<br>Market <sup>(1)</sup> |
| In NIS millions   |                                  |                             |                      |                         |  |
| For the six months ended June 30, 2016                                    |                                  |                             |                      |                         |  |
| Interest income, net  | 950                              | 174                         | 421                  | 119                     | 1  |
| Non-interest income   | 543                              | 51                          | 188                  | 247                     | 30   |
| <b>Total income</b>   | <b>1,493</b>                     | <b>225</b>                  | <b>609</b>           | <b>366</b>              | <b>31</b>                                    |
| Credit loss expenses (expenses reversal)                                  | 64                               | 5                           | (52)                 | 7                       | -  |
| Operating and other expenses  | 1,616                            | 174                         | 229                  | 98                      | 9  |
| Income (loss) before taxes  | (187)                            | 46                          | 432                  | 261                     | 22   |
| Provision for taxes on income   | (41)                             | 19                          | 160                  | 120                     | 3  |
| Income (loss) after taxes   | (146)                            | 27                          | 272                  | 141                     | 19   |
| Bank's share in income of affiliated companies, net of tax effect         | 1                                | -                           | -                    | 2                       | (5)  |
| Net income (loss) before attributed to the non-controlling rights holders | (145)                            | 27                          | 272                  | 143                     | 14   |
| Net income attributed to the non-controlling rights holders               | -                                | -                           | -                    | -                       | -  |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>            | <b>(145)</b>                     | <b>27</b>                   | <b>272</b>           | <b>143</b>              | <b>14</b>                                    |
| Balance of Assets at the end of the period                                | 58,723                           | 12,052                      | 36,906               | 68,698                  | 1,180  |
| Balance of credit to the public at the end of the period                  | 57,682                           | 11,995                      | 36,789               | 2,320                   | -  |
| Balance of deposits from the public at the end of the period              | 106,107                          | 5,504                       | 24,198               | 5,631                   | -  |
| For the six months ended June 30, 2015                                    |                                  |                             |                      |                         |  |
| Interest income, net  | 870                              | 168                         | 391                  | 133                     | -  |
| Non-interest income   | 576                              | 47                          | 182                  | 187                     | 58   |
| <b>Total income</b>   | <b>1,446</b>                     | <b>215</b>                  | <b>573</b>           | <b>320</b>              | <b>58</b>                                    |
| Credit loss expenses (expenses reversal)                                  | (6)                              | 7                           | (22)                 | (4)                     | -  |
| Operating and other expenses  | 1,559                            | 167                         | 211                  | 95                      | 6  |
| Income (loss) before taxes  | (107)                            | 41                          | 384                  | 229                     | 52   |
| Provision for taxes on income   | (29)                             | 16                          | 147                  | 96                      | 7  |
| Income (loss) after taxes   | (78)                             | 25                          | 237                  | 133                     | 45   |
| Bank's share in income of affiliated companies, net of tax effect         | -                                | -                           | -                    | 5                       | (2)  |
| Net income (loss) before attributed to the non-controlling rights holders | (78)                             | 25                          | 237                  | 138                     | 43   |
| Net income attributed to the non-controlling rights holders               | -                                | -                           | -                    | -                       | -  |
| <b>Net Income (loss) Attributed to the bank's shareholders</b>            | <b>(78)</b>                      | <b>25</b>                   | <b>237</b>           | <b>138</b>              | <b>43</b>                                    |
| Balance of Assets at the end of the period                                | 53,939                           | 11,026                      | 32,824               | 69,531                  | 1,072  |
| Balance of credit to the public at the end of the period                  | 51,711                           | 11,132                      | 32,563               | 1,275                   | -  |
| Balance of deposits from the public at the end of the period              | 98,028                           | 5,587                       | 23,114               | 7,034                   | -  |

footnotes:

(1) The contribution to the Bank's business results.

(2) See A 3 above.

|  | Discount<br>Bancorp <sup>(1)</sup> | Israel<br>Credit<br>Cards <sup>(1)</sup> | other     | Adjustments | Total        |
|--|------------------------------------|--|-----------|-------------|--------------|
|  | 375                                | 169                                      | 1         | 2           | 2,212        |
|  | 96                                 | 745                                      | 48        | (78)        | 1,870        |
|  | <b>471</b>                         | <b>914</b>                               | <b>49</b> | <b>(76)</b> | <b>4,082</b> |
|  | 48                                 | 32                                       | -         | -           | 104          |
|  | 271                                | 536                                      | 20        | (72)        | 2,881        |
|  | 152                                | 346                                      | 29        | (4)         | 1,097        |
|  | 55                                 | 127                                      | 12        | -           | 455          |
|  | 97                                 | 219                                      | 17        | (4)         | 642          |
|  | -                                  | -  | -         | (1)         | (3)          |
|  | 97                                 | 219                                      | 17        | (5)         | 639          |
|  | -                                  | (67)                                     | (1)       | 1           | (67)         |
|  | <b>97</b>                          | <b>152</b>                               | <b>16</b> | <b>(4)</b>  | <b>572</b>   |
|  | 35,238                             | 11,623                                   | 5,278     | (20,816)    | 208,882      |
|  | 20,958                             | 11,254                                   | -         | (5,813)     | 135,185      |
|  | 25,535                             | 18                                       | -         | (5,006)     | 161,987      |
|  | 390                                | 138                                      | 22        | 3           | 2,115        |
|  | 127                                | 468                                      | 65        | (75)        | 1,635        |
|  | <b>517</b>                         | <b>606</b>                               | <b>87</b> | <b>(72)</b> | <b>3,750</b> |
|  | 7                                  | 17                                       | 5         | -           | 4            |
|  | 353                                | 467                                      | 65        | (72)        | 2,851        |
|  | 157                                | 122                                      | 17        | -           | 895          |
|  | 59                                 | 44                                       | 5         | (1)         | 344          |
|  | 98                                 | 78                                       | 12        | 1           | 551          |
|  | -                                  | -  | -         | (1)         | 2            |
|  | 98                                 | 78                                       | 12        | -           | 553          |
|  | -                                  | (31)                                     | (1)       | 1           | (31)         |
|  | <b>98</b>                          | <b>47</b>                                | <b>11</b> | <b>1</b>    | <b>522</b>   |
|  | 36,803                             | 10,293                                   | 8,832     | (20,658)    | 203,662      |
|  | 18,965                             | 10,025                                   | 774       | (4,188)     | 122,257      |
|  | 22,479                             | 16                                       | 1,728     | (6,228)     | 151,758      |

## 13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

## B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

|   | For the year ended December 31, 2015 |                       |                   |                      |  |
|---|--------------------------------------|-----------------------|-------------------|----------------------|--|
|   | Retail banking <sup>(2)</sup>        | Middle market banking | Corporate banking | Financial management | Discount Capital Market <sup>(1)</sup> |
|   | For the year ended December 31, 2015 |                       |                   |                      |  |
|   | In NIS millions                      |                       |                   |                      |  |
| Interest income, net  | 1,753                                | 332                   | 737               | 305                  | 1                                      |
| Non-interest income   | 1,147                                | 93                    | 357               | 241                  | 101                                    |
| <b>Total income</b>   | <b>2,900</b>                         | <b>425</b>            | <b>1,094</b>      | <b>546</b>           | <b>102</b>                             |
| Credit loss expenses (expenses reversal)                                  | 119                                  | 18                    | 8                 | -                    | -                                      |
| Operating and other expenses  | 3,097                                | 343                   | 434               | 192                  | 12                                     |
| Income (loss) before taxes  | (316)                                | 64                    | 652               | 354                  | 90                                     |
| Provision for taxes on income   | (79)                                 | 28                    | 246               | 147                  | 12                                     |
| Income (loss) after taxes   | (237)                                | 36                    | 406               | 207                  | 78                                     |
| Bank's share in income of affiliated companies, net of tax effect         | 1                                    | -                     | -                 | 7                    | 3                                      |
| Net income (loss) before attributed to the non-controlling rights holders | (236)                                | 36                    | 406               | 214                  | 81                                     |
| Net income attributed to the non-controlling rights holders               | -                                    | -                     | -                 | -                    | -                                      |
| <b>Net income (loss) Attributed to the bank's shareholders</b>            | <b>(236)</b>                         | <b>36</b>             | <b>406</b>        | <b>214</b>           | <b>81</b>                              |
| Balance of Assets at the end of the period                                | 55,692                               | 11,283                | 35,876            | 68,015               | 1,110                                  |
| Balance of credit to the public at the end of the period                  | 54,117                               | 11,542                | 35,971            | 651                  | -                                      |
| Balance of deposits from the public at the end of the period              | 101,973                              | 6,191                 | 23,659            | 6,520                | -                                      |

footnotes:

(1) The contribution to the Bank's business results.

(2) See A 3 above.



|  | Discount<br>Bancorp <sup>(1)</sup> | Israel<br>Credit<br>Cards <sup>(1)</sup> | other       | Adjustments  | Total        |
|--|------------------------------------|--|-------------|--------------|--------------|
|  | 774                                | 290                                      | 29          | 4            | 4,225        |
|  | 216                                | 950                                      | 102         | (154)        | 3,053        |
|  | <b>990</b>                         | <b>1,240</b>                             | <b>131</b>  | <b>(150)</b> | <b>7,278</b> |
|  | 11                                 | 34                                       | (1)         | (2)          | 187          |
|  | 665                                | 965                                      | 163         | (146)        | 5,725        |
|  | 314                                | 241                                      | (31)        | (2)          | 1,366        |
|  | 124                                | 90                                       | 1           | (1)          | 568          |
|  | 190                                | 151                                      | (32)        | (1)          | 798          |
|  | -                                  | 1  | -           | (3)          | 9            |
|  | 190                                | 152                                      | (32)        | (4)          | 807          |
|  | -                                  | (57)                                     | (2)         | 2            | (57)         |
|  | <b>190</b>                         | <b>95</b>                                | <b>(34)</b> | <b>(2)</b>   | <b>750</b>   |
|  | 36,353                             | 10,991                                   | 7,970       | (22,030)     | 205,260      |
|  | 21,321                             | 10,718                                   | -           | (5,052)      | 129,268      |
|  | 25,111                             | 17                                       | -           | (6,067)      | 157,404      |

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

**General.** Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under resale agreements.

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS

#### 1. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES – CONSOLIDATED

|  | Unaudited            |  |   |                   |          |              |
|--|----------------------|--|---|-------------------|----------|--------------|
|  | Credit to the public |  |   | Total Governments |          |              |
|  | Commercial           | Private<br>Individuals -<br>Housing<br>Loans | Private<br>Individuals -<br>Other Loans |                   |          |              |
|  |                      | Total  |   |                   |          |              |
| In NIS millions  |                      |  |   |                   |          |              |
| Three months ended June 30, 2016   |                      |  |   |                   |          |              |
| Balance of allowance for credit losses, as at<br>March 31, 2016                      | 1,667                | 171  | 412                                     | 2,250             | 2        | 2,252        |
| Expenses (expenses reversal ) for credit loss  | 2                    | 5  | 52                                      | 59                | (1)      | 58           |
| Accounting write-offs  | (75)                 | (6)  | (76)                                    | (157)             | -        | (157)        |
| Collection of debts written-off in previous<br>years                                 | 73                   | -  | 43                                      | 116               | -        | 116          |
| Net accounting write-offs  | (2)                  | (6)  | (33)                                    | (41)              | -        | (41)         |
| Financial statements translation adjustments   | 5                    | -  | -                                       | 5                 | -        | 5            |
| <b>Balance of allowance for credit losses,<br/>as at June 30, 2016</b>               | <b>1,672</b>         | <b>170</b>                                   | <b>431</b>                              | <b>2,273</b>      | <b>1</b> | <b>2,274</b> |
| Of which: In respect of off-balance sheet<br>credit instruments                      | 142                  | 4  | 34                                      | 180               | -        | 180          |
| Three months ended June 30, 2015   |                      |  |   |                   |          |              |
| Balance of allowance for credit losses, as at<br>March 31, 2015 <sup>(1)</sup>       | 1,570                | 172  | 395                                     | 2,137             | 3        | 2,140        |
| Expenses (expenses reversal ) for credit loss  | (53)                 | 1  | 24                                      | (28)              | -        | (28)         |
| Accounting write-offs  | (71)                 | (1)  | (63)                                    | (135)             | -        | (135)        |
| Collection of debts written-off in previous<br>years                                 | 156                  | -  | 47                                      | 203               | -        | 203          |
| Net accounting write-offs  | 85                   | (1)  | (16)                                    | 68                | -        | 68           |
| Financial statements translation adjustments   | (14)                 | -  | -                                       | (14)              | -        | (14)         |
| <b>Balance of allowance for credit losses,<br/>as at June 30, 2015<sup>(1)</sup></b> | <b>1,588</b>         | <b>172</b>                                   | <b>403</b>                              | <b>2,163</b>      | <b>3</b> | <b>2,166</b> |
| Of which: In respect of off-balance sheet<br>credit instruments                      | 146                  | 3  | 36                                      | 185               | -        | 185          |

Footnotes:

(1) Excluding balance classified as assets and liabilities held for sale - see Note 18.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

#### 1. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES – CONSOLIDATED (CONTINUED)

|  | Unaudited            |                                     |                                   |              |                       |              |
|--|----------------------|-------------------------------------|-----------------------------------|--------------|-----------------------|--------------|
|  | Credit to the public |                                     |                                   | Total        | Banks and Governments | Total        |
|  | Commercial           | Private Individuals - Housing Loans | Private Individuals - Other Loans |              |                       |              |
| In NIS millions  |                      |                                     |                                   |              |                       |              |
| Six months ended June 30, 2016   |                      |                                     |                                   |              |                       |              |
| Balance of allowance for credit losses, as at December 31, 2015 <sup>(1)</sup> (audited) | 1,675                | 176                                 | 407                               | 2,258        | 3                     | 2,261        |
| Expenses (expenses reversal ) for credit loss  | 16                   | 9                                   | 81                                | 106          | (2)                   | 104          |
| Accounting write-offs  | (167)                | (15)                                | (148)                             | (330)        | -                     | (330)        |
| Collection of debts written-off in previous years  | 152                  | -                                   | 91                                | 243          | -                     | 243          |
| Net accounting write-offs  | (15)                 | (15)                                | (57)                              | (87)         | -                     | (87)         |
| Financial statements translation adjustments   | (4)                  | -                                   | -                                 | (4)          | -                     | (4)          |
| <b>Balance of allowance for credit losses, as at June 30, 2016</b>                       | <b>1,672</b>         | <b>170</b>                          | <b>431</b>                        | <b>2,273</b> | <b>1</b>              | <b>2,274</b> |
| Of which: In respect of off-balance sheet credit instruments                             | 142                  | 4                                   | 34                                | 180          | -                     | 180          |
| Six months ended June 30, 2015   |                      |                                     |                                   |              |                       |              |
| Balance of allowance for credit losses, as at December 31, 2014 <sup>(1)</sup> (audited) | 1,545                | 263                                 | 411                               | 2,219        | 5                     | 2,224        |
| Expenses (expenses reversal ) for credit loss  | (12)                 | 1                                   | 17                                | 6            | (2)                   | 4            |
| Accounting write-offs  | (175)                | (92)                                | (130)                             | (397)        | -                     | (397)        |
| Collection of debts written-off in previous years  | 239                  | -                                   | 105                               | 344          | -                     | 344          |
| Net accounting write-offs  | 64                   | (92)                                | (25)                              | (53)         | -                     | (53)         |
| Financial statements translation adjustments   | (9)                  | -                                   | -                                 | (9)          | -                     | (9)          |
| <b>Balance of allowance for credit losses, as at June 30, 2015<sup>(1)</sup></b>         | <b>1,588</b>         | <b>172</b>                          | <b>403</b>                        | <b>2,163</b> | <b>3</b>              | <b>2,166</b> |
| Of which: In respect of off-balance sheet credit instruments                             | 146                  | 3                                   | 36                                | 185          | -                     | 185          |

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - see Note 18.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – CONSOLIDATED

|   | Unaudited             |  |  |                |                          |                |
|---|-----------------------|--|--|----------------|--------------------------|----------------|
|   | Credit to the public  |  |  |                |                          |                |
|   | Commercial            | Private<br>Individuals -<br>Housing<br>Loans | Private<br>Individuals<br>- Other<br>Loans | Total          | Banks and<br>Governments | Total          |
|   | In NIS millions       |  |  |                |                          |                |
|   | June 30, 2016         |  |  |                |                          |                |
| Recorded amount of debts:   |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 62,313                | -  | <sup>(3)</sup> 975                         | 63,288         | 3,331                    | 66,619         |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | <sup>(2)</sup> 245    | 23,456                                       | -  | 23,701         | -                        | 23,701         |
| Group - other   | <sup>(2)</sup> 24,605 | 52   | <sup>(3)</sup> 23,539                      | 48,196         | 2,121                    | 50,317         |
| <b>Total debts</b>  | <b>87,163</b>         | <b>23,508</b>                                | <b>24,514</b>                              | <b>135,185</b> | <b>5,452</b>             | <b>140,637</b> |
| Allowance for Credit Losses in respect of debts:                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 1,207                 | -  | <sup>(3)</sup> 18                          | 1,225          | -                        | 1,225          |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | 3                     | <sup>(4)</sup> 166                           | -  | 169            | -                        | 169            |
| Group - other   | 320                   | -  | <sup>(3)</sup> 379                         | 699            | 1                        | 700            |
| <b>Total allowance for Credit Losses</b>                              | <b>1,530</b>          | <b>166</b>                                   | <b>397</b>                                 | <b>2,093</b>   | <b>1</b>                 | <b>2,094</b>   |
|   | June 30, 2015         |  |  |                |                          |                |
| Recorded amount of debts:   |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 57,774                | -  | 2,936                                      | 60,710         | 4,689                    | 65,399         |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | <sup>(2)</sup> 285    | 20,753                                       | -  | 21,038         | -                        | 21,038         |
| Group - other   | <sup>(2)</sup> 20,559 | 48   | 19,902                                     | 40,509         | 1,441                    | 41,950         |
| <b>Total debts</b>  | <b>78,618</b>         | <b>20,801</b>                                | <b>22,838</b>                              | <b>122,257</b> | <b>6,130</b>             | <b>128,387</b> |
| Allowance for Credit Losses in respect of debts:                      |                       |  |  |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                           | 1,179                 | -  | 40   | 1,219          | 1                        | 1,220          |
| Examined on a group basis:  |                       |  |  |                |                          |                |
| The allowance in respect thereof is computed by the extent of arrears | 2                     | <sup>(4)</sup> 168                           | -  | 170            | -                        | 170            |
| Group - other   | 261                   | 1  | 327  | 589            | 2                        | 591            |
| <b>Total allowance for Credit Losses</b>                              | <b>1,442</b>          | <b>169</b>                                   | <b>367</b>                                 | <b>1,978</b>   | <b>3</b>                 | <b>1,981</b>   |

#### Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 63,881 million (June 30, 2015 - NIS 62,278 million) and the allowance in its respect in an amount of NIS 750 million (June 30, 2015 - NIS 754 million) computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of June 30, 2015 – an amount of NIS 290 million).
- (3) For details regarding changes in accounting policy in the matter of "classification of problematic debts and allowances for credit losses", see Note 1G.
- (4) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million (June 30, 2015 - NIS 3 million), and computed on a group basis in an amount of NIS 86 million (June 30, 2015 - NIS 75 million).

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – CONSOLIDATED (CONTINUED)

| Audited  |                       |  |   |                |                          |                |
|--|-----------------------|--|---|----------------|--------------------------|----------------|
| Credit to the public   |                       |  |   |                |                          |                |
|  | Commercial            | Private<br>Individuals -<br>Housing<br>Loans | Private<br>Individuals -<br>Other Loans | Total          | Banks and<br>Governments | Total          |
| In NIS millions  |                       |  |   |                |                          |                |
| December 31, 2015  |                       |  |   |                |                          |                |
| <b>Recorded amount of debts:</b>   |                       |  |   |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                              | 60,604                | -  | 2,988                                   | 63,592         | 3,168                    | 66,760         |
| Examined on a group basis:   |                       |  |   |                |                          |                |
| The allowance in respect thereof is computed<br>by the extent of arrears | <sup>(2)</sup> 231    | 21,759                                       | -                                       | 21,990         | -                        | 21,990         |
| Group - other  | <sup>(2)</sup> 22,633 | 49   | 21,004                                  | 43,686         | 3,102                    | 46,788         |
| <b>Total debts</b>   | <b>83,468</b>         | <b>21,808</b>                                | <b>23,992</b>                           | <b>129,268</b> | <b>6,270</b>             | <b>135,538</b> |
| <b>Allowance for Credit Losses in respect of<br/>debts:</b>              |                       |  |   |                |                          |                |
| Examined on a specific basis <sup>(1)</sup>                              | 1,211                 | -  | 47                                      | 1,258          | 1                        | 1,259          |
| Examined on a group basis:   |                       |  |   |                |                          |                |
| The allowance in respect thereof is computed<br>by the extent of arrears | 2                     | <sup>(3)</sup> 173                           | -                                       | 175            | -                        | 175            |
| Group - other  | 292                   | -  | 327                                     | 619            | 2                        | 621            |
| <b>Total allowance for Credit Losses</b>                                 | <b>1,505</b>          | <b>173</b>                                   | <b>374</b>                              | <b>2,052</b>   | <b>3</b>                 | <b>2,055</b>   |

#### Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 63,816 million and the allowance in its respect in an amount of NIS 796 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 236 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, and computed on a group basis in an amount of NIS 79 million.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS

#### 1. CREDIT QUALITY AND ARREARS - CONSOLIDATED

| Unaudited   |                            |                    |                         |         |  |  |
|---|----------------------------|--------------------|-------------------------|---------|--|--|
| June 30, 2016                                       |                            |                    |                         |         |  |  |
|   | Problematic <sup>(1)</sup> |                    |                         | Total   | Unimpaired debts – additional information    |  |
|   | Non-problematic            | Unimpaired         | Impaired <sup>(2)</sup> |         | In Arrears of 90 Days or More <sup>(3)</sup> | In Arrears of 30 to 89 Days <sup>(4)</sup> |
| In NIS millions                                     |                            |                    |                         |         |  |  |
| Lending Activity in Israel                          |                            |                    |                         |         |  |  |
| Public - Commercial                                 |                            |                    |                         |         |  |  |
| Construction and Real Estate - Construction         | 8,371                      | 54                 | 103                     | 8,528   | 9  | 4  |
| Construction and Real Estate - Real Estate Activity | 7,336                      | 247                | 296                     | 7,879   | 1  | 2  |
| Financial Services                                  | 7,442                      | 3                  | 101                     | 7,546   | 2  | 1  |
| Commercial - Other                                  | 38,357                     | 925                | 1,722                   | 41,004  | 33   | 62   |
| Total Commercial                                    | 61,506                     | 1,229              | 2,222                   | 64,957  | 45   | 69   |
| Private Individuals - Housing Loans                 | 23,030                     | <sup>(5)</sup> 330 | -                       | 23,360  | 298  | 79   |
| Private Individuals - Other Loans                   | 22,784                     | 302                | 57                      | 23,143  | 62   | 89   |
| Total Public - Lending Activity in Israel           | 107,320                    | 1,861              | 2,279                   | 111,460 | 405  | 237  |
| Banks in Israel                                     | 657                        | -                  | -                       | 657     | -  | -  |
| Government of Israel                                | 518                        | -                  | -                       | 518     | -  | -  |
| Total Lending Activity in Israel                    | 108,495                    | 1,861              | 2,279                   | 112,635 | 405  | 237  |
| Lending Activity Outside of Israel                  |                            |                    |                         |         |  |  |
| Public - Commercial                                 |                            |                    |                         |         |  |  |
| Construction and Real Estate                        | 7,643                      | -                  | 209                     | 7,852   | -  | -  |
| Commercial - Other                                  | 13,886                     | 220                | 248                     | 14,354  | -  | 21   |
| Total Commercial                                    | 21,529                     | 220                | 457                     | 22,206  | -  | 21   |
| Private Individuals                                 | 1,513                      | 4                  | 2                       | 1,519   | 2  | 14   |
| Total Public - Lending Activity Outside of Israel   | 23,042                     | 224                | 459                     | 23,725  | 2  | 35   |
| Foreign banks                                       | 4,250                      | -                  | -                       | 4,250   | -  | -  |
| Foreign governments                                 | 27                         | -                  | -                       | 27      | -  | -  |
| Total Lending Activity Outside of Israel            | 27,319                     | 224                | 459                     | 28,002  | 2  | 35   |
| Total public  | 130,362                    | 2,085              | 2,738                   | 135,185 | 407  | 272  |
| Total banks   | 4,907                      | -                  | -                       | 4,907   | -  | -  |
| Total governments                                   | 545                        | -                  | -                       | 545     | -  | -  |
| Total   | 135,814                    | 2,085              | 2,738                   | 140,637 | 407  | 272  |

For footnotes see page 180.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

| Unaudited  |                            |                    |                         |   |  |  |
|--|----------------------------|--------------------|-------------------------|---|--|--|
| June 30, 2015  |                            |                    |                         |   |  |  |
|  | Problematic <sup>(1)</sup> |                    |                         | Unimpaired debts – additional information |  |  |
|  | Non-problematic            | Unimpaired         | Impaired <sup>(2)</sup> | Total                                     | In Arrears of 90 Days or More <sup>(3)</sup> | In Arrears of 30 to 89 Days <sup>(4)</sup> |
| In NIS millions  |                            |                    |                         |   |  |  |
| <b>Lending Activity in Israel</b>                        |                            |                    |                         |   |  |  |
| <b>Public - Commercial</b>                               |                            |                    |                         |   |  |  |
| Construction and Real Estate - Construction              | 5,247                      | 43                 | 154                     | 5,444                                     | 3  | 6  |
| Construction and Real Estate - Real Estate Activity      | 8,675                      | 27                 | 320                     | 9,022                                     | 1  | 3  |
| Financial Services                                       | 5,371                      | 129                | 108                     | 5,608                                     | 1  | -  |
| Commercial - Other                                       | 35,420                     | 526                | 2,040                   | 37,986                                    | 25   | 40   |
| <b>Total Commercial</b>                                  | <b>54,713</b>              | <b>725</b>         | <b>2,622</b>            | <b>58,060</b>                             | <b>30</b>                                    | <b>49</b>                                  |
| Private Individuals - Housing Loans                      | <sup>(6)</sup> 20,296      | <sup>(5)</sup> 370 | -                       | 20,666                                    | 334  | 70   |
| Private Individuals - Other Loans                        | 21,060                     | 264                | 77                      | 21,401                                    | 48   | 56   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>96,069</b>              | <b>1,359</b>       | <b>2,699</b>            | <b>100,127</b>                            | <b>412</b>                                   | <b>175</b>                                 |
| Banks in Israel  | 626                        | -                  | -                       | 626                                       | -  | -  |
| Government of Israel                                     | 428                        | -                  | -                       | 428                                       | -  | -  |
| <b>Total Lending Activity in Israel</b>                  | <b>97,123</b>              | <b>1,359</b>       | <b>2,699</b>            | <b>101,181</b>                            | <b>412</b>                                   | <b>175</b>                                 |
| <b>Lending Activity Outside of Israel</b>                |                            |                    |                         |   |  |  |
| <b>Public - Commercial</b>                               |                            |                    |                         |   |  |  |
| Construction and Real Estate                             | 6,855                      | 17                 | 282                     | 7,154                                     | -  | -  |
| Commercial - Other                                       | 12,923                     | 341                | 140                     | 13,404                                    | 1  | 6  |
| <b>Total Commercial</b>                                  | <b>19,778</b>              | <b>358</b>         | <b>422</b>              | <b>20,558</b>                             | <b>1</b>                                     | <b>6</b>                                   |
| Private Individuals                                      | <sup>(6)</sup> 1,565       | 7                  | -                       | 1,572                                     | 6  | 1  |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>21,343</b>              | <b>365</b>         | <b>422</b>              | <b>22,130</b>                             | <b>7</b>                                     | <b>7</b>                                   |
| Foreign banks  | 5,058                      | -                  | -                       | 5,058                                     | -  | -  |
| Foreign governments                                      | 18                         | -                  | -                       | 18  | -  | -  |
| <b>Total Lending Activity Outside of Israel</b>          | <b>26,419</b>              | <b>365</b>         | <b>422</b>              | <b>27,206</b>                             | <b>7</b>                                     | <b>7</b>                                   |
| <b>Total public</b>                                      | <b>117,412</b>             | <b>1,724</b>       | <b>3,121</b>            | <b>122,257</b>                            | <b>419</b>                                   | <b>182</b>                                 |
| <b>Total banks</b>                                       | <b>5,684</b>               | <b>-</b>           | <b>-</b>                | <b>5,684</b>                              | <b>-</b>                                     | <b>-</b>                                   |
| <b>Total governments</b>                                 | <b>446</b>                 | <b>-</b>           | <b>-</b>                | <b>446</b>                                | <b>-</b>                                     | <b>-</b>                                   |
| <b>Total</b>   | <b>123,542</b>             | <b>1,724</b>       | <b>3,121</b>            | <b>128,387</b>                            | <b>419</b>                                   | <b>182</b>                                 |

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

| Audited  |                 |                    |                         |                |  |  |
|--|-----------------|--------------------|-------------------------|----------------|--|--|
| December 31, 2015  |                 |                    |                         |                |  |  |
| Problematic <sup>(1)</sup>                               |                 |                    |                         |                | Unimpaired debts – additional information    |  |
|  | Non-problematic | Unimpaired         | Impaired <sup>(2)</sup> | Total          | In Arrears of 90 Days or More <sup>(3)</sup> | In Arrears of 30 to 89 Days <sup>(4)</sup> |
| In NIS millions  |                 |                    |                         |                |  |  |
| Lending Activity in Israel                               |                 |                    |                         |                |  |  |
| Public - Commercial                                      |                 |                    |                         |                |  |  |
| Construction and Real Estate - Construction              | 6,350           | 87                 | 117                     | 6,554          | 7  | 18   |
| Construction and Real Estate - Real Estate Activity      | 8,734           | 278                | 276                     | 9,288          | -  | 2  |
| Financial Services                                       | 5,594           | 2                  | 127                     | 5,723          | 1  | -  |
| Commercial - Other                                       | 37,691          | 309                | 1,829                   | 39,829         | 20   | 46   |
| <b>Total Commercial</b>                                  | <b>58,369</b>   | <b>676</b>         | <b>2,349</b>            | <b>61,394</b>  | <b>28</b>                                    | <b>66</b>                                  |
| Private Individuals - Housing Loans                      | 21,302          | <sup>(5)</sup> 355 | -                       | 21,657         | 322  | 81   |
| Private Individuals - Other Loans                        | 22,254          | 293                | 64                      | 22,611         | 56   | 54   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>101,925</b>  | <b>1,324</b>       | <b>2,413</b>            | <b>105,662</b> | <b>406</b>                                   | <b>201</b>                                 |
| Banks in Israel  | 405             | -                  | -                       | 405            | -  | -  |
| Government of Israel                                     | 502             | -                  | -                       | 502            | -  | -  |
| <b>Total Lending Activity in Israel</b>                  | <b>102,832</b>  | <b>1,324</b>       | <b>2,413</b>            | <b>106,569</b> | <b>406</b>                                   | <b>201</b>                                 |
| Lending Activity Outside of Israel                       |                 |                    |                         |                |  |  |
| Public - Commercial                                      |                 |                    |                         |                |  |  |
| Construction and Real Estate                             | 7,376           | 63                 | 282                     | 7,721          | -  | 7  |
| Commercial - Other                                       | 13,870          | 234                | 249                     | 14,353         | 1  | -  |
| <b>Total Commercial</b>                                  | <b>21,246</b>   | <b>297</b>         | <b>531</b>              | <b>22,074</b>  | <b>1</b>                                     | <b>7</b>                                   |
| Private Individuals                                      | 1,527           | 5                  | -                       | 1,532          | 5  | 2  |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>22,773</b>   | <b>302</b>         | <b>531</b>              | <b>23,606</b>  | <b>6</b>                                     | <b>9</b>                                   |
| Foreign banks  | 5,349           | -                  | -                       | 5,349          | -  | -  |
| Foreign governments                                      | 14              | -                  | -                       | 14             | -  | -  |
| <b>Total Lending Activity Outside of Israel</b>          | <b>28,136</b>   | <b>302</b>         | <b>531</b>              | <b>28,969</b>  | <b>6</b>                                     | <b>9</b>                                   |
| <b>Total public</b>                                      | <b>124,698</b>  | <b>1,626</b>       | <b>2,944</b>            | <b>129,268</b> | <b>412</b>                                   | <b>210</b>                                 |
| <b>Total banks</b>                                       | <b>5,754</b>    | <b>-</b>           | <b>-</b>                | <b>5,754</b>   | <b>-</b>                                     | <b>-</b>                                   |
| <b>Total governments</b>                                 | <b>516</b>      | <b>-</b>           | <b>-</b>                | <b>516</b>     | <b>-</b>                                     | <b>-</b>                                   |
| <b>Total</b>   | <b>130,968</b>  | <b>1,626</b>       | <b>2,944</b>            | <b>135,538</b> | <b>412</b>                                   | <b>210</b>                                 |

Footnotes:

- (1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.
- (2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.
- (3) Classified as unimpaired problematic debts. Accruing interest income.
- (4) Debts in arrears for between 30 and 89 days which accrue interest income, in amount of NIS 146 millions are classified as unimpaired problematic debts (June 30, 2015 - NIS 87 million, December 31, 2015 - NIS 101 million).
- (5) Including housing loans in amount of NIS 11 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (June 30, 2015 - NIS 10 million, December 31, 2015 - NIS 11 million).
- (6) Reclassified due to changes in the data of a subsidiary company.



## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

| Unaudited  |   |  |   |   |   |
|--|---|--|---|---|---|
| June 30, 2016  |   |  |   |   |   |
|  | Balance <sup>(1)</sup> of<br>impaired debts in<br>respect of which<br>specific allowance<br>exists <sup>(2)</sup> | Balance of<br>specific<br>allowance <sup>(2)</sup> | Balance <sup>(1)</sup> of<br>impaired debts for<br>which specific<br>allowance does<br>not exist <sup>(2)</sup> | Total<br>balance <sup>(1)</sup> of<br>Impaired<br>Debts | Contractual<br>principal<br>amount of<br>impaired<br>debts <sup>(3)</sup> |
| In NIS millions  |   |  |   |   |   |
| <b>Lending Activity in Israel</b>                        |   |  |   |   |   |
| <b>Public - Commercial</b>                               |   |  |   |   |   |
| Construction and Real Estate - Construction              | 47  | 22   | 56  | 103   | 3,451   |
| Construction and Real Estate - Real Estate Activity      | 84  | 7  | 212   | 296   | 1,256   |
| Financial Services                                       | 96  | 15   | 5   | 101   | 296   |
| Commercial - Other                                       | 1,163   | 399  | 559   | 1,722   | 4,919   |
| <b>Total Commercial</b>                                  | <b>1,390</b>  | <b>443</b>   | <b>832</b>  | <b>2,222</b>  | <b>9,922</b>  |
| Private Individuals - Other Loans                        | 15  | 4  | 42  | 57  | 431   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>1,405</b>  | <b>447</b>   | <b>874</b>  | <b>2,279</b>  | <b>10,353</b>   |
| <b>Total Lending Activity in Israel</b>                  | <b>1,405</b>  | <b>447</b>   | <b>874</b>  | <b>2,279</b>  | <b>10,353</b>   |
| <b>Lending Activity Outside of Israel</b>                |   |  |   |   |   |
| <b>Public - Commercial</b>                               |   |  |   |   |   |
| Construction and Real Estate                             | 14  | -  | 195   | 209   | 844   |
| Commercial - Other                                       | 98  | 28   | 150   | 248   | 422   |
| <b>Total Commercial</b>                                  | <b>112</b>  | <b>28</b>  | <b>345</b>  | <b>457</b>  | <b>1,266</b>  |
| Private Individuals                                      | 2   | -  | -   | 2   | 4   |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>114</b>  | <b>28</b>  | <b>345</b>  | <b>459</b>  | <b>1,270</b>  |
| <b>Total Lending Activity Outside of Israel</b>          | <b>114</b>  | <b>28</b>  | <b>345</b>  | <b>459</b>  | <b>1,270</b>  |
| <b>Total public</b>                                      | <b>1,519</b>  | <b>475</b>   | <b>1,219</b>  | <b>2,738</b>  | <b>11,623</b>   |
| <b>Total</b>   | <b>1,519</b>  | <b>475</b>   | <b>1,219</b>  | <b>2,738</b>  | <b>11,623</b>   |
| Of which:  |   |  |   |   |   |
| Measured according to present value of cash flows        | 752   | 312  | 309   | 1,061   |   |
| Debts under troubled debt restructurings                 | 1,100   | 296  | 691   | 1,791   |   |

For footnotes see page 183.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

| Unaudited  |   |  |   |   |   |
|--|---|--|---|---|---|
| June 30, 2015  |   |  |   |   |   |
|  | Balance <sup>(1)</sup> of<br>impaired debts in<br>respect of which<br>specific allowance<br>exists <sup>(2)</sup> | Balance of<br>specific<br>allowance <sup>(2)</sup> | Balance <sup>(1)</sup> of<br>impaired debts for<br>which specific<br>allowance does<br>not exist <sup>(2)</sup> | Total<br>balance <sup>(1)</sup> of<br>Impaired<br>Debts | Contractual<br>principal<br>amount of<br>impaired<br>debts <sup>(3)</sup> |
| In NIS millions  |   |  |   |   |   |
| <b>Lending Activity in Israel</b>                            |   |  |   |   |   |
| <b>Public - Commercial</b>                                   |   |  |   |   |   |
| Construction and Real Estate - Construction                  | 24  | 8  | 130   | 154   | 3,371   |
| Construction and Real Estate - Real Estate<br>Activity       | <sup>(4)</sup> 85   | 12   | <sup>(4)</sup> 235  | 320   | 1,552   |
| Financial Services   | 79  | 11   | 29  | 108   | 450   |
| Commercial - Other   | <sup>(4)</sup> 1,398  | 401  | <sup>(4)</sup> 642  | 2,040   | 5,716   |
| <b>Total Commercial</b>                                      | <b>1,586</b>  | <b>432</b>   | <b>1,036</b>  | <b>2,622</b>  | <b>11,089</b>   |
| Private Individuals - Other Loans                            | 29  | 8  | 48  | 77  | 462   |
| <b>Total Public - Lending Activity in Israel</b>             | <b>1,615</b>  | <b>440</b>   | <b>1,084</b>  | <b>2,699</b>  | <b>11,551</b>   |
| <b>Total Lending Activity in Israel</b>                      | <b>1,615</b>  | <b>440</b>   | <b>1,084</b>  | <b>2,699</b>  | <b>11,551</b>   |
| <b>Lending Activity Outside of Israel</b>                    |   |  |   |   |   |
| <b>Public - Commercial</b>                                   |   |  |   |   |   |
| Construction and Real Estate                                 | 15  | 1  | 267   | 282   | 529   |
| Commercial - Other   | 53  | 25   | 87  | 140   | 234   |
| <b>Total Commercial</b>                                      | <b>68</b>   | <b>26</b>  | <b>354</b>  | <b>422</b>  | <b>763</b>  |
| Private Individuals  | -   | -  | -   | -   | 6   |
| <b>Total Public - Lending Activity Outside<br/>of Israel</b> | <b>68</b>   | <b>26</b>  | <b>354</b>  | <b>422</b>  | <b>769</b>  |
| <b>Total Lending Activity Outside of Israel</b>              | <b>68</b>   | <b>26</b>  | <b>354</b>  | <b>422</b>  | <b>769</b>  |
| <b>Total public</b>  | <b>1,683</b>  | <b>466</b>   | <b>1,438</b>  | <b>3,121</b>  | <b>12,320</b>   |
| <b>Total</b>   | <b>1,683</b>  | <b>466</b>   | <b>1,438</b>  | <b>3,121</b>  | <b>12,320</b>   |
| Of which:  |   |  |   |   |   |
| Measured according to present value of cash<br>flows         | <sup>(4)</sup> 847  | 321  | <sup>(4)</sup> 367  | 1,214   |   |
| Debts under troubled debt restructurings                     | 802   | 163  | 659   | 1,461   |   |

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

| Audited  |   |  |   |   |   |
|--|---|--|---|---|---|
| December 31, 2015  |   |  |   |   |   |
|  | Balance <sup>(1)</sup> of<br>impaired debts in<br>respect of which<br>specific allowance<br>exists <sup>(2)</sup> | Balance of<br>specific<br>allowance <sup>(2)</sup> | Balance <sup>(1)</sup> of<br>impaired debts for<br>which specific<br>allowance does<br>not exist <sup>(2)</sup> | Total balance <sup>(1)</sup><br>of<br>Impaired<br>Debts | Contractual<br>principal<br>amount of<br>impaired<br>debts <sup>(3)</sup> |
| In NIS millions  |   |  |   |   |   |
| <b>Lending Activity in Israel</b>                        |   |  |   |   |   |
| <b>Public - Commercial</b>                               |   |  |   |   |   |
| Construction and Real Estate - Construction              | 31  | 13   | 86  | 117   | 3,310   |
| Construction and Real Estate - Real Estate Activity      | 92  | 16   | 184   | 276   | 1,545   |
| Financial Services                                       | 122   | 15   | 5   | 127   | 322   |
| Commercial - Other                                       | 1,160   | 380  | 669   | 1,829   | 5,346   |
| <b>Total Commercial</b>                                  | <b>1,405</b>  | <b>424</b>   | <b>944</b>  | <b>2,349</b>  | <b>10,523</b>   |
| Private Individuals - Other Loans                        | 18  | 5  | 46  | 64  | 449   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>1,423</b>  | <b>429</b>   | <b>990</b>  | <b>2,413</b>  | <b>10,972</b>   |
| <b>Total Lending Activity in Israel</b>                  | <b>1,423</b>  | <b>429</b>   | <b>990</b>  | <b>2,413</b>  | <b>10,972</b>   |
| <b>Lending Activity Outside of Israel</b>                |   |  |   |   |   |
| <b>Public - Commercial</b>                               |   |  |   |   |   |
| Construction and Real Estate                             | 28  | 1  | 254   | 282   | 934   |
| Commercial - Other                                       | 156   | 33   | 93  | 249   | 379   |
| <b>Total Commercial</b>                                  | <b>184</b>  | <b>34</b>  | <b>347</b>  | <b>531</b>  | <b>1,313</b>  |
| Private Individuals                                      | -   | -  | -   | -   | 1   |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>184</b>  | <b>34</b>  | <b>347</b>  | <b>531</b>  | <b>1,314</b>  |
| <b>Total Lending Activity Outside of Israel</b>          | <b>184</b>  | <b>34</b>  | <b>347</b>  | <b>531</b>  | <b>1,314</b>  |
| <b>Total public</b>                                      | <b>1,607</b>  | <b>463</b>   | <b>1,337</b>  | <b>2,944</b>  | <b>12,286</b>   |
| <b>Total</b>   | <b>1,607</b>  | <b>463</b>   | <b>1,337</b>  | <b>2,944</b>  | <b>12,286</b>   |
| Of which:  |   |  |   |   |   |
| Measured according to present value of cash flows        | 768   | 290  | 366   | 1,134   |   |
| Debts under troubled debt restructurings                 | 1,024   | 203  | 708   | 1,732   |   |

Footnotes:

- (1) Recorded amount.
- (2) Specific allowance for credit losses.
- (3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
- (4) Reclassified due to changes in the data of a subsidiary company.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### B. AVERAGE BALANCE AND INTEREST INCOME

|  | Unaudited  |   |                                  |  |   |                                  |
|--|--|---|----------------------------------|--|---|----------------------------------|
|  | Three months ended June 30, 2016                 |   |                                  | Six months ended June 30, 2016                   |   |                                  |
|  | Average balance of Impaired Debts <sup>(1)</sup> | Recorded Interest Income <sup>(2)</sup> | Of which: recorded on cash basis | Average balance of Impaired Debts <sup>(1)</sup> | Recorded Interest Income <sup>(2)</sup> | Of which: recorded on cash basis |
| In NIS millions  |  |   |                                  |  |   |                                  |
| <b>Lending Activity in Israel</b>                        |  |   |                                  |  |   |                                  |
| <b>Public - Commercial</b>                               |  |   |                                  |  |   |                                  |
| Construction and Real Estate - Construction              | 113  | -                                       | -                                | 120  | 1                                       | 1                                |
| Construction and Real Estate - Real Estate Activity      | 313  | 1                                       | 1                                | 323  | 3                                       | 2                                |
| Financial Services                                       | 105  | 1                                       | 1                                | 110  | 1                                       | 1                                |
| Commercial - Other                                       | 1,760  | 6                                       | 5                                | 1,796  | 10                                      | 7                                |
| <b>Total Commercial</b>                                  | <b>2,291</b>                                     | <b>8</b>                                | <b>7</b>                         | <b>2,349</b>                                     | <b>15</b>                               | <b>11</b>                        |
| Private Individuals - Other Loans                        | 60   | -                                       | -                                | 65   | -                                       | -                                |
| <b>Total Public - Lending Activity in Israel</b>         | <b>2,351</b>                                     | <b>8</b>                                | <b>7</b>                         | <b>2,414</b>                                     | <b>15</b>                               | <b>11</b>                        |
| <b>Total Lending Activity in Israel</b>                  | <b>2,351</b>                                     | <b>8</b>                                | <b>7</b>                         | <b>2,414</b>                                     | <b>15</b>                               | <b>11</b>                        |
| <b>Lending Activity Outside of Israel</b>                |  |   |                                  |  |   |                                  |
| <b>Public - Commercial</b>                               |  |   |                                  |  |   |                                  |
| Construction and Real Estate                             | 228  | 1                                       | 1                                | 242  | 3                                       | 2                                |
| Commercial - Other                                       | 232  | 2                                       | -                                | 235  | 3                                       | -                                |
| <b>Total Commercial</b>                                  | <b>460</b>                                       | <b>3</b>                                | <b>1</b>                         | <b>477</b>                                       | <b>6</b>                                | <b>2</b>                         |
| Private Individuals                                      | 4  | -                                       | -                                | 2  | -                                       | -                                |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>464</b>                                       | <b>3</b>                                | <b>1</b>                         | <b>479</b>                                       | <b>6</b>                                | <b>2</b>                         |
| <b>Total Lending Activity Outside of Israel</b>          | <b>464</b>                                       | <b>3</b>                                | <b>1</b>                         | <b>479</b>                                       | <b>6</b>                                | <b>2</b>                         |
| <b>Total</b>   | <b>2,815</b>                                     | <b>(3) 11</b>                           | <b>8</b>                         | <b>2,893</b>                                     | <b>(3) 21</b>                           | <b>13</b>                        |

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### B. AVERAGE BALANCE AND INTEREST INCOME (CONTINUED)

|  | Unaudited  |   |                                  |  |   |                                  |
|--|--|---|----------------------------------|--|---|----------------------------------|
|  | Three months ended June 30, 2015                 |   |                                  | Six months ended June 30, 2015                   |   |                                  |
|  | Average balance of Impaired Debts <sup>(1)</sup> | Recorded Interest Income <sup>(2)</sup> | Of which: recorded on cash basis | Average balance of Impaired Debts <sup>(1)</sup> | Recorded Interest Income <sup>(2)</sup> | Of which: recorded on cash basis |
| In NIS millions  |  |   |                                  |  |   |                                  |
| <b>Lending Activity in Israel</b>                        |  |   |                                  |  |   |                                  |
| <b>Public - Commercial</b>                               |  |   |                                  |  |   |                                  |
| Construction and Real Estate - Construction              | 160  | 2                                       | 2                                | 166  | 2                                       | 2                                |
| Construction and Real Estate - Real Estate Activity      | 383  | 2                                       | 2                                | 410  | 4                                       | 3                                |
| Financial Services                                       | 124  | 3                                       | 3                                | 144  | 4                                       | 3                                |
| Commercial - Other                                       | 2,105  | 5                                       | 3                                | 2,136  | 12                                      | 6                                |
| <b>Total Commercial</b>                                  | <b>2,772</b>                                     | <b>12</b>                               | <b>10</b>                        | <b>2,856</b>                                     | <b>22</b>                               | <b>14</b>                        |
| Private Individuals - Housing Loans                      | 10   | -                                       | -                                | 9  | -                                       | -                                |
| Private Individuals - Other Loans                        | 75   | 1                                       | 1                                | 82   | 2                                       | 1                                |
| <b>Total Public - Lending Activity in Israel</b>         | <b>2,857</b>                                     | <b>13</b>                               | <b>11</b>                        | <b>2,947</b>                                     | <b>24</b>                               | <b>15</b>                        |
| <b>Total Lending Activity in Israel</b>                  | <b>2,857</b>                                     | <b>13</b>                               | <b>11</b>                        | <b>2,947</b>                                     | <b>24</b>                               | <b>15</b>                        |
| <b>Lending Activity Outside of Israel</b>                |  |   |                                  |  |   |                                  |
| <b>Public - Commercial</b>                               |  |   |                                  |  |   |                                  |
| Construction and Real Estate                             | 287  | -                                       | -                                | 339  | 1                                       | 1                                |
| Commercial - Other                                       | 137  | -                                       | -                                | 141  | -                                       | -                                |
| <b>Total Commercial</b>                                  | <b>424</b>                                       | <b>-</b>                                | <b>-</b>                         | <b>480</b>                                       | <b>1</b>                                | <b>1</b>                         |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>424</b>                                       | <b>-</b>                                | <b>-</b>                         | <b>480</b>                                       | <b>1</b>                                | <b>1</b>                         |
| <b>Total Lending Activity Outside of Israel</b>          | <b>424</b>                                       | <b>-</b>                                | <b>-</b>                         | <b>480</b>                                       | <b>1</b>                                | <b>1</b>                         |
| <b>Total</b>   | <b>3,281</b>                                     | <b>(3) 13</b>                           | <b>11</b>                        | <b>3,427</b>                                     | <b>(3) 25</b>                           | <b>16</b>                        |

Footnotes:

- (1) Average recorded amount of Impaired debts during the reported period.
- (2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.
- (3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 30 millions and NIS 63 millions for the three and six months ended June 30, 2016 (NIS 45 millions and NIS 71 millions for the three and six months ended June 30, 2015), respectively.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

| Unaudited  |                                    |  |  |  |                      |
|--|------------------------------------|--|--|--|----------------------|
| June 30, 2016  |                                    |  |  |  |                      |
| Recorded amount  |                                    |  |  |  |                      |
|  | Not accruing<br>interest<br>income | Accruing<br>debts <sup>(1)</sup> , in<br>arrears for<br>90 days or<br>more | Accruing<br>debts <sup>(1)</sup> , in<br>Arrears for<br>30 to 89<br>Days | Accruing<br>debts <sup>(1)</sup> not<br>in arrears | Total <sup>(2)</sup> |
| In NIS millions  |                                    |  |  |  |                      |
| <b>Lending Activity in Israel</b>                        |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate - Construction              | 9                                  | -  | -  | 8  | 17                   |
| Construction and Real Estate - Real Estate Activity      | 147                                | -  | 2  | 35   | 184                  |
| Financial Services                                       | 92                                 | -  | -  | 1  | 93                   |
| Commercial - Other                                       | 1,064                              | -  | 2  | 282  | 1,348                |
| <b>Total Commercial</b>                                  | <b>1,312</b>                       | <b>-</b>   | <b>4</b>   | <b>326</b>   | <b>1,642</b>         |
| Private Individuals - Other Loans                        | 19                                 | -  | 1  | 29   | 49                   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>1,331</b>                       | <b>-</b>   | <b>5</b>   | <b>355</b>   | <b>1,691</b>         |
| <b>Total Lending Activity in Israel</b>                  | <b>1,331</b>                       | <b>-</b>   | <b>5</b>   | <b>355</b>   | <b>1,691</b>         |
| <b>Lending Activity Outside of Israel</b>                |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate                             | 23                                 | -  | -  | -  | 23                   |
| Commercial - Other                                       | 6                                  | -  | -  | 71   | 77                   |
| <b>Total Commercial</b>                                  | <b>29</b>                          | <b>-</b>   | <b>-</b>   | <b>71</b>  | <b>100</b>           |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>29</b>                          | <b>-</b>   | <b>-</b>   | <b>71</b>  | <b>100</b>           |
| <b>Total Lending Activity Outside of Israel</b>          | <b>29</b>                          | <b>-</b>   | <b>-</b>   | <b>71</b>  | <b>100</b>           |
| <b>Total</b>   | <b>1,360</b>                       | <b>-</b>   | <b>5</b>   | <b>426</b>   | <b>1,791</b>         |

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at June 30, 2016, to NIS 44 million (June 30, 2015 - NIS 44 million; December 31, 2015 – NIS 39 million).

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

| Unaudited  |                                    |  |  |  |                      |
|--|------------------------------------|--|--|--|----------------------|
| June 30, 2015  |                                    |  |  |  |                      |
| Recorded amount  |                                    |  |  |  |                      |
|  | Not accruing<br>interest<br>income | Accruing<br>debts <sup>(1)</sup> , in<br>arrears for<br>90 days or<br>more | Accruing<br>debts <sup>(1)</sup> , in<br>Arrears for<br>30 to 89<br>Days | Accruing<br>debts <sup>(1)</sup> not<br>in arrears | Total <sup>(2)</sup> |
| In NIS millions  |                                    |  |  |  |                      |
| <b>Lending Activity in Israel</b>                        |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate - Construction              | 68                                 | -  | -  | 12   | 80                   |
| Construction and Real Estate - Real Estate Activity      | 123                                | -  | -  | 63   | 186                  |
| Financial Services                                       | 8                                  | -  | -  | 20   | 28                   |
| Commercial - Other                                       | 859                                | -  | 2  | 202  | 1,063                |
| <b>Total Commercial</b>                                  | <b>1,058</b>                       | <b>-</b>   | <b>2</b>   | <b>297</b>   | <b>1,357</b>         |
| Private Individuals - Other Loans                        | 27                                 | -  | -  | 31   | 58                   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>1,085</b>                       | <b>-</b>   | <b>2</b>   | <b>328</b>   | <b>1,415</b>         |
| <b>Total Lending Activity in Israel</b>                  | <b>1,085</b>                       | <b>-</b>   | <b>2</b>   | <b>328</b>   | <b>1,415</b>         |
| <b>Lending Activity Outside of Israel</b>                |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate                             | 8                                  | -  | -  | 24   | 32                   |
| Commercial - Other                                       | 6                                  | -  | -  | 8  | 14                   |
| <b>Total Commercial</b>                                  | <b>14</b>                          | <b>-</b>   | <b>-</b>   | <b>32</b>  | <b>46</b>            |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>14</b>                          | <b>-</b>   | <b>-</b>   | <b>32</b>  | <b>46</b>            |
| <b>Total Lending Activity Outside of Israel</b>          | <b>14</b>                          | <b>-</b>   | <b>-</b>   | <b>32</b>  | <b>46</b>            |
| <b>Total</b>   | <b>1,099</b>                       | <b>-</b>   | <b>2</b>   | <b>360</b>   | <b>1,461</b>         |

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

| Audited  |                                    |  |  |  |                      |
|--|------------------------------------|--|--|--|----------------------|
| December 31, 2015  |                                    |  |  |  |                      |
| Recorded amount  |                                    |  |  |  |                      |
|  | Not accruing<br>interest<br>income | Accruing<br>debts <sup>(1)</sup> , in<br>arrears for<br>90 days or<br>more | Accruing<br>debts <sup>(1)</sup> , in<br>Arrears for<br>30 to 89<br>Days | Accruing<br>debts <sup>(1)</sup> not<br>in arrears | Total <sup>(2)</sup> |
| In NIS millions  |                                    |  |  |  |                      |
| <b>Lending Activity in Israel</b>                        |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate - Construction              | 10                                 | -  | -  | 31   | 41                   |
| Construction and Real Estate - Real Estate Activity      | 99                                 | -  | -  | 32   | 131                  |
| Financial Services                                       | 112                                | -  | -  | 9  | 121                  |
| Commercial - Other                                       | 1,004                              | -  | 2  | 278  | 1,284                |
| <b>Total Commercial</b>                                  | <b>1,225</b>                       | <b>-</b>   | <b>2</b>   | <b>350</b>   | <b>1,577</b>         |
| Private Individuals - Other Loans                        | 21                                 | -  | -  | 30   | 51                   |
| <b>Total Public - Lending Activity in Israel</b>         | <b>1,246</b>                       | <b>-</b>   | <b>2</b>   | <b>380</b>   | <b>1,628</b>         |
| <b>Total Lending Activity in Israel</b>                  | <b>1,246</b>                       | <b>-</b>   | <b>2</b>   | <b>380</b>   | <b>1,628</b>         |
| <b>Lending Activity Outside of Israel</b>                |                                    |  |  |  |                      |
| <b>Public - Commercial</b>                               |                                    |  |  |  |                      |
| Construction and Real Estate                             | 24                                 | -  | -  | 12   | 36                   |
| Commercial - Other                                       | 10                                 | -  | -  | 58   | 68                   |
| <b>Total Commercial</b>                                  | <b>34</b>                          | <b>-</b>   | <b>-</b>   | <b>70</b>  | <b>104</b>           |
| <b>Total Public - Lending Activity Outside of Israel</b> | <b>34</b>                          | <b>-</b>   | <b>-</b>   | <b>70</b>  | <b>104</b>           |
| <b>Total Lending Activity Outside of Israel</b>          | <b>34</b>                          | <b>-</b>   | <b>-</b>   | <b>70</b>  | <b>104</b>           |
| <b>Total</b>   | <b>1,280</b>                       | <b>-</b>   | <b>2</b>   | <b>450</b>   | <b>1,732</b>         |

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.



## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

| Unaudited   |                        |   |   |                                |   |   |
|---|------------------------|---|---|--------------------------------|---|---|
| Three months ended June 30, 2016                    |                        |   |   | Six months ended June 30, 2016 |   |   |
| Debt restructuring performed                        |                        |   |   |                                |   |   |
|   | Number of<br>contracts | Recorded<br>amount<br>before<br>restructuring | Recorded<br>amount after<br>restructuring | Number of<br>contracts         | Recorded<br>amount<br>before<br>restructuring | Recorded<br>amount after<br>restructuring |
| In NIS millions                                     |                        |   |   |                                |   |   |
| Lending Activity in Israel                          |                        |   |   |                                |   |   |
| Public - Commercial                                 |                        |   |   |                                |   |   |
| Construction and Real Estate - Construction         | 22                     | 1   | 1   | 54                             | 4   | 4   |
| Construction and Real Estate - Real Estate Activity | 2                      | (1)_  | (1)_                                      | 4                              | 2   | 2   |
| Financial Services                                  | 2                      | (1)_  | (1)_                                      | 2                              | (1)_  | (1)_                                      |
| Commercial - Other                                  | 104                    | 182   | 180                                       | 204                            | 194   | 192                                       |
| Total Commercial                                    | 130                    | 183   | 181                                       | 264                            | 200   | 198                                       |
| Private Individuals - Other Loans                   | 571                    | 7   | 6   | 1,183                          | 16  | 14  |
| Total Public - Lending Activity in Israel           | 701                    | 190   | 187                                       | 1,447                          | 216   | 212                                       |
| Total Lending Activity in Israel                    | 701                    | 190   | 187                                       | 1,447                          | 216   | 212                                       |
| Lending Activity Outside of Israel                  |                        |   |   |                                |   |   |
| Public - Commercial                                 |                        |   |   |                                |   |   |
| Construction and Real Estate                        | -                      | -   | -   | 1                              | 1   | 1   |
| Commercial - Other                                  | 2                      | 44  | 44  | 2                              | 44  | 44  |
| Total Commercial                                    | 2                      | 44  | 44  | 3                              | 45  | 45  |
| Total Public - Lending Activity Outside of Israel   | 2                      | 44  | 44  | 3                              | 45  | 45  |
| Total Lending Activity Outside of Israel            | 2                      | 44  | 44  | 3                              | 45  | 45  |
| Total   | 703                    | 234   | 231                                       | 1,450                          | 261   | 257                                       |

Footnote:

(1) An amount lower than NIS 1 million.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

| Unaudited   |                                  |                                      |                                     |                                |                                      |                                     |
|---|----------------------------------|--------------------------------------|-------------------------------------|--------------------------------|--------------------------------------|-------------------------------------|
|   | Three months ended June 30, 2015 |                                      |                                     | Six months ended June 30, 2015 |                                      |                                     |
| Debt restructuring performed                        |                                  |                                      |                                     |                                |                                      |                                     |
|   | Number of contracts              | Recorded amount before restructuring | Recorded amount after restructuring | Number of contracts            | Recorded amount before restructuring | Recorded amount after restructuring |
| In NIS millions                                     |                                  |                                      |                                     |                                |                                      |                                     |
| Lending Activity in Israel                          |                                  |                                      |                                     |                                |                                      |                                     |
| Public - Commercial                                 |                                  |                                      |                                     |                                |                                      |                                     |
| Construction and Real Estate - Construction         | 20                               | 5                                    | 1                                   | 39                             | 6                                    | 2                                   |
| Construction and Real Estate - Real Estate Activity | 3                                | 7                                    | 7                                   | 4                              | 7                                    | 7                                   |
| Financial Services                                  | 1                                | (1)_                                 | (1)_                                | 1                              | (1)_                                 | (1)_                                |
| Commercial - Other                                  | 99                               | 506                                  | 505                                 | 203                            | 546                                  | 545                                 |
| Total Commercial                                    | 123                              | 518                                  | 513                                 | 247                            | 559                                  | 554                                 |
| Private Individuals - Other Loans                   | 561                              | 9                                    | 9                                   | 1,228                          | 19                                   | 18                                  |
| Total Public - Lending Activity in Israel           | 684                              | 527                                  | 522                                 | 1,475                          | 578                                  | 572                                 |
| Total Lending Activity in Israel                    | 684                              | 527                                  | 522                                 | 1,475                          | 578                                  | 572                                 |
| Lending Activity Outside of Israel                  |                                  |                                      |                                     |                                |                                      |                                     |
| Public - Commercial                                 |                                  |                                      |                                     |                                |                                      |                                     |
| Construction and Real Estate                        | 1                                | (1)_                                 | (1)_                                | 1                              | (1)_                                 | (1)_                                |
| Total Commercial                                    | 1                                | (1)_                                 | (1)_                                | 1                              | (1)_                                 | (1)_                                |
| Private Individuals                                 | 1                                | (1)_                                 | (1)_                                | 2                              | (1)_                                 | (1)_                                |
| Total Public - Lending Activity Outside of Israel   | 2                                | (1)_                                 | (1)_                                | 3                              | (1)_                                 | (1)_                                |
| Total Lending Activity Outside of Israel            | 2                                | (1)_                                 | (1)_                                | 3                              | (1)_                                 | (1)_                                |
| Total   | 686                              | 527                                  | 522                                 | 1,478                          | 578                                  | 572                                 |

Footnote:

(1) An amount lower than NIS 1 million.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

|   | Unaudited                                    |                 |                                |                 |
|---|--|-----------------|--------------------------------|-----------------|
|   | Three months ended June 30, 2016             |                 | Six months ended June 30, 2016 |                 |
|   | Failure of restructured debts <sup>(1)</sup> |                 |                                |                 |
|   | Number of contracts                          | Recorded amount | Number of contracts            | Recorded amount |
| In NIS millions                                     |  |                 |                                |                 |
| Lending Activity in Israel                          |  |                 |                                |                 |
| Public - Commercial                                 |  |                 |                                |                 |
| Construction and Real Estate - Construction         | 2  | (2)_            | 6                              | (2)_            |
| Construction and Real Estate - Real Estate Activity | -  | -               | 1                              | (2)_            |
| Commercial - Other                                  | 28   | 2               | 55                             | 43              |
| Total Commercial                                    | 30   | 2               | 62                             | 43              |
| Private Individuals - Other                         | 329  | 2               | 666                            | 5               |
| Total Public - Activity in Israel                   | 359  | 4               | 728                            | 48              |
| Total Activity in Israel                            | 359  | 4               | 728                            | 48              |
| Total   | 359  | 4               | 728                            | 48              |

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

| Unaudited                                   |  |                 |                                |                 |
|---|--|-----------------|--------------------------------|-----------------|
|   | Three months ended June 30, 2015             |                 | Six months ended June 30, 2015 |                 |
|   | Failure of restructured debts <sup>(1)</sup> |                 |                                |                 |
|   | Number of contracts                          | Recorded amount | Number of contracts            | Recorded amount |
|   | In NIS millions                              |                 |                                |                 |
| Lending Activity in Israel                  |  |                 |                                |                 |
| Public - Commercial                         |  |                 |                                |                 |
| Construction and Real Estate - Construction | 2  | (2)_            | 5                              | (2)_            |
| Commercial - Other                          | 24   | 11              | 48                             | 13              |
| <b>Total Commercial</b>                     | <b>26</b>                                    | <b>11</b>       | <b>53</b>                      | <b>13</b>       |
| Private Individuals - Other                 | 321  | 3               | 636                            | 5               |
| <b>Total Public - Activity in Israel</b>    | <b>347</b>                                   | <b>14</b>       | <b>689</b>                     | <b>18</b>       |
| <b>Total Activity in Israel</b>             | <b>347</b>                                   | <b>14</b>       | <b>689</b>                     | <b>18</b>       |
| <b>Total</b>                                | <b>347</b>                                   | <b>14</b>       | <b>689</b>                     | <b>18</b>       |

Footnotes:

- (1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrear.
- (2) An amount lower than NIS 1 million.

#### 3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT

##### (A) Risk characteristics according to credit segments

###### (1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent years, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

###### (2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

###### (3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT (CONTINUED)

##### (B) Indication of credit quality

|   | Unaudited     |                     |             |       | Audited           |                     |             |       |
|---|---------------|---------------------|-------------|-------|-------------------|---------------------|-------------|-------|
|   | June 30, 2016 |                     |             |       | December 31, 2015 |                     |             |       |
|   | Commercial    | Private Individuals |             | Total | Commercial        | Private Individuals |             | Total |
|   |               | Housing Loans       | Other Loans |       |                   | Housing Loans       | Other Loans |       |
| Ratio of the balance of non-problematic credit to the public to the balance of credit to the public   | 95.2%         | 98.6%               | 98.5%       | 96.4% | 95.4%             | 98.4%               | 98.5%       | 96.4% |
| Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public  | 1.7%          | 1.4%                | 1.3%        | 1.6%  | 1.2%              | 1.6%                | 1.2%        | 1.3%  |
| Ratio of the balance of impaired credit to the public to the balance of credit to the public  | 3.1%          | -                   | 0.2%        | 2.0%  | 3.4%              | -                   | 0.3%        | 2.3%  |
| Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public                                      | 1.8%          | 0.7%                | 1.6%        | 1.5%  | 1.8%              | 0.8%                | 1.5%        | 1.6%  |
| Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds) | 35.8%         | 49.7%               | 108.8%      | 42.0% | 34.8%             | 48.1%               | 104.2%      | 40.6% |

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank. At the end of the second quarter of 2016, a slight improvement is noticed in the rate of performing credit to the public, stemming from housing loans and commercial credit.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 4. ADDITIONAL INFORMATION REGARDING HOUSING LOANS

Balances for the year end, according to Loan-to-Value (LTV)<sup>(1)</sup> ratio, manner of repayment and type of interest:

|  |           | Balance of housing loans |   |                                   |   |
|--|-----------|--------------------------|---|-----------------------------------|---|
|  |           | Total                    | Of which:<br>Bullet and<br>Balloon<br>debts | Of which:<br>variable<br>interest | Total Off-<br>Balance<br>Sheet Credit<br>Risk |
| In NIS millions                        |           |                          |   |                                   |   |
| Unaudited                              |           |                          |   |                                   |   |
| June 30, 2016                          |           |                          |   |                                   |   |
| First degree pledge: financing ratio   | Up to 60% | 14,701                   | 290   | 9,020                             | 177   |
|  | Over 60%  | 7,949                    | 62  | 5,100                             | 102   |
| Second degree pledge or without pledge |           | 858                      | 20  | 423                               | 2,149   |
| <b>Total</b>                           |           | <b>(2)23,508</b>         | <b>372</b>                                  | <b>14,543</b>                     | <b>2,428</b>                                  |
| Unaudited                              |           |                          |   |                                   |   |
| June 30, 2015                          |           |                          |   |                                   |   |
| First degree pledge: financing ratio   | Up to 60% | 12,895                   | 266   | 8,267                             | 130   |
|  | Over 60%  | 7,202                    | 63  | 4,846                             | 57  |
| Second degree pledge or without pledge |           | 704                      | 17  | 371                               | 1,667   |
| <b>Total<sup>(3)</sup></b>             |           | <b>(2)20,801</b>         | <b>346</b>                                  | <b>13,484</b>                     | <b>1,854</b>                                  |
| Audited                                |           |                          |   |                                   |   |
| December 31, 2015                      |           |                          |   |                                   |   |
| First degree pledge: financing ratio   | Up to 60% | 13,668                   | 277   | 8,613                             | 147   |
|  | Over 60%  | 7,324                    | 60  | 4,875                             | 80  |
| Second degree pledge or without pledge |           | 816                      | 22  | 368                               | 1,525   |
| <b>Total</b>                           |           | <b>(2)21,808</b>         | <b>359</b>                                  | <b>13,856</b>                     | <b>1,752</b>                                  |

Footnotes:

- (1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.
- (2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (June 30, 2015 - NIS 290 million, December 31, 2015 - NIS 236 million).
- (3) Reclassified – eliminating the balance of commercial debts, as detailed in footnote 2 above.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### C. INFORMATION REGARDING THE PURCHASE AND SALE OF DEBTS

FOLLOWING ARE DETAILS REGARDING THE CONSIDERATION PAID OR RECEIVED FOR THE PURCHASE OR SALE OF LOANS:

| Unaudited                                |     |       |                       |       |  |   |       |                       |       |
|--|-----|-------|-----------------------|-------|--|---|-------|-----------------------|-------|
| Credit to the public                     |     |       |                       |       | Credit to the public                     |   |       |                       |       |
| Commercial Housing                       |     | Other | Credit to governments | Total | Commercial Housing                       |   | Other | Credit to governments | Total |
| In NIS millions                          |     |       |                       |       |  |   |       |                       |       |
| For the three months ended June 30, 2016 |     |       |                       |       | For the three months ended June 30, 2015 |   |       |                       |       |
| Loans acquired                           | 271 | -     | -                     | 5 276 | (1)204                                   | - | -     | 41                    | 245   |
| Loans sold                               | 264 | -     | -                     | - 264 | 88                                       | - | -     | -                     | 88    |

| For the six months ended June 30, 2016 |     |   |   |       | For the six months ended June 30, 2015 |   |   |     |     |
|--|-----|---|---|-------|--|---|---|-----|-----|
| Loans acquired                         | 549 | - | - | 9 558 | (1)306                                 | - | - | 44  | 350 |
| Loans sold                             | 424 | - | - | - 424 | 702                                    | - | - | 181 | 883 |

Footnote:

(1) Reclassified - Improvement in the calculation of the data.

For details regarding income (loss) net in respect of loans sold, see Note 3.

### D. OFF BALANCE SHEET FINANCIAL INSTRUMENTS<sup>(3)</sup>

|  | Unaudited              |                          | Unaudited                 |                             | Audited                   |                             |
|--|------------------------|--------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
|  | Balance <sup>(1)</sup> | Provision <sup>(2)</sup> | Balance <sup>(1)(4)</sup> | Provision <sup>(2)(4)</sup> | Balance <sup>(1)(4)</sup> | Provision <sup>(2)(4)</sup> |
|  | June 30,2016           |                          | June 30,2015              |                             | December 31,2015          |                             |
|  | in NIS millions        |                          |                           |                             |                           |                             |
| Transactions in which the balance represents credit risk:                                  |                        |                          |                           |                             |                           |                             |
| Letters of credit  | 1,352                  | 8                        | 1,478                     | 17                          | 1,292                     | 16                          |
| Credit guarantees  | 2,497                  | 23                       | 2,083                     | 29                          | 2,089                     | 31                          |
| Guarantees for home purchasers   | 6,403                  | 2                        | 5,366                     | 6                           | 5,955                     | 5                           |
| Other guarantees and obligations   | 5,714                  | 35                       | 4,839                     | 32                          | 5,073                     | 31                          |
| Unutilized facilities for transactions in derivative instruments                           | 939                    | -                        | 1,275                     | -                           | 944                       | -                           |
| Unutilized facilities credit line for credit cards   | 21,082                 | 24                       | 18,943                    | 27                          | 20,051                    | 24                          |
| Unutilized current loan account facilities and other credit facilities in on-call accounts | 8,702                  | 25                       | 8,124                     | 25                          | 8,336                     | 27                          |
| Irrevocable commitments to extend credit approved but not yet granted <sup>(3)</sup>       | 22,262                 | 59                       | 21,055                    | 45                          | 22,665                    | 67                          |
| Commitment to issue guarantees   | 4,051                  | 4                        | 3,151                     | 4                           | 3,830                     | 5                           |

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

(4) Excluding balances classified as assets held for sale - see note 18.

## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS – CONSOLIDATED

| Unaudited   |                      |               |                                 |                        |              |                          |                |
|---|----------------------|---------------|---------------------------------|------------------------|--------------|--------------------------|----------------|
| June 30, 2016   |                      |               |                                 |                        |              |                          |                |
| Israeli currency  |                      |               | Foreign currency <sup>(1)</sup> |                        |              | Non<br>monetary<br>items | Total          |
| Non-linked  | Linked to<br>the CPI | In US\$       | In Euro                         | In other<br>currencies |              |                          |                |
| in NIS millions   |                      |               |                                 |                        |              |                          |                |
| <b>Assets</b>   |                      |               |                                 |                        |              |                          |                |
| Cash and deposits with banks                                    | 21,312               | 57            | 4,061                           | 649                    | 705          | -                        | 26,784         |
| Securities  | 16,550               | 4,240         | 15,710                          | 627                    | -            | 926                      | 38,053         |
| Securities borrowed or purchased under<br>resale agreements     | 288                  | -             | -                               | -                      | -            | -                        | 288            |
| Credit to the public, net                                       | 89,015               | 15,475        | 26,072                          | 1,979                  | 551          | -                        | 133,092        |
| Credit to the Government  | 213                  | 202           | 9                               | 122                    | -            | -                        | 546            |
| Investments in affiliated companies                             | -                    | 2             | -                               | -                      | -            | 133                      | 135            |
| Buildings and equipment   | -                    | -             | -                               | -                      | -            | 2,290                    | 2,290          |
| Intangible assets and goodwill                                  | -                    | -             | -                               | -                      | -            | 160                      | 160            |
| Assets in respect of derivative instruments                     | 1,790                | 59            | 1,379                           | 139                    | 332          | 113                      | 3,812          |
| Other assets  | 1,718                | 14            | 1,074                           | 123                    | 393          | 391                      | 3,713          |
| Assets held for sale  | -                    | -             | -                               | -                      | -            | 9                        | 9              |
| <b>Total assets</b>   | <b>130,886</b>       | <b>20,049</b> | <b>48,305</b>                   | <b>3,639</b>           | <b>1,981</b> | <b>4,022</b>             | <b>208,882</b> |
| <b>Liabilities</b>  |                      |               |                                 |                        |              |                          |                |
| Deposits from the public  | 100,061              | 5,539         | 46,993                          | 6,849                  | 2,545        | -                        | 161,987        |
| Deposits from banks   | 2,511                | 5             | 1,882                           | 126                    | 15           | -                        | 4,539          |
| Deposits from the Government                                    | 141                  | 64            | 289                             | -                      | -            | -                        | 494            |
| Securities loaned or sold under repurchase<br>agreements        | -                    | -             | 3,621                           | -                      | -            | -                        | 3,621          |
| Subordinated debt notes   | 2,045                | 6,634         | -                               | 86                     | -            | -                        | 8,765          |
| Liabilities in respect of derivative<br>instruments             | 2,138                | 132           | 1,448                           | 261                    | 340          | 119                      | 4,438          |
| Other liabilities   | 9,513                | 223           | 629                             | 105                    | 54           | 333                      | 10,857         |
| Liabilities held for sale                                       | -                    | -             | -                               | -                      | -            | -                        | -              |
| <b>Total liabilities</b>  | <b>116,409</b>       | <b>12,597</b> | <b>54,862</b>                   | <b>7,427</b>           | <b>2,954</b> | <b>452</b>               | <b>194,701</b> |
| Difference  | 14,477               | 7,452         | (6,557)                         | (3,788)                | (973)        | 3,570                    | 14,181         |
| <b>Effect of non-hedging derivative<br/>instruments:</b>        |                      |               |                                 |                        |              |                          |                |
| Derivative instruments (except for options)                     | (11,955)             | (2,523)       | 9,993                           | 3,638                  | 847          | -                        | -              |
| Options in the money, net (in terms of<br>underlying asset)     | 36                   | -             | (158)                           | 71                     | 51           | -                        | -              |
| Options out of the money, net (in terms of<br>underlying asset) | (56)                 | -             | 35                              | 50                     | (29)         | -                        | -              |
| <b>Total</b>  | <b>2,502</b>         | <b>4,929</b>  | <b>3,313</b>                    | <b>(29)</b>            | <b>(104)</b> | <b>3,570</b>             | <b>14,181</b>  |
| Options in the money, net (discounted par<br>value)             | (33)                 | -             | (211)                           | 165                    | 79           | -                        | -              |
| Options out of the money, net (discounted<br>par value)         | (757)                | -             | 769                             | 67                     | (79)         | -                        | -              |

Footnote:

(1) Includes those linked to foreign currency.



## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

| Unaudited   |                      |               |                                 |                        |              |                          |                |
|---|----------------------|---------------|---------------------------------|------------------------|--------------|--------------------------|----------------|
| June 30, 2015   |                      |               |                                 |                        |              |                          |                |
| Israeli currency  |                      |               | Foreign currency <sup>(1)</sup> |                        |              | Non<br>monetary<br>items | Total          |
| Non-linked  | Linked to<br>the CPI | In US\$       | In Euro                         | In other<br>currencies |              |                          |                |
| in NIS millions   |                      |               |                                 |                        |              |                          |                |
|   |                      |               |                                 |                        |              |                          |                |
| <b>Assets</b>   |                      |               |                                 |                        |              |                          |                |
| Cash and deposits with banks                                    | 24,910               | 87            | 4,329                           | 863                    | 1,016        | -                        | 31,205         |
| Securities  | 15,630               | 4,250         | 14,616                          | 701                    | 56           | 1,337                    | 36,590         |
| Securities borrowed or purchased under<br>resale agreements     | 607                  | -             | -                               | -                      | -            | -                        | 607            |
| Credit to the public, net                                       | 78,034               | 14,742        | 24,657                          | 1,950                  | 896          | -                        | 120,279        |
| Credit to the Government  | 175                  | 253           | 18                              | -                      | -            | -                        | 446            |
| Investments in affiliated companies                             | -                    | 2             | -                               | -                      | -            | 139                      | 141            |
| Buildings and equipment   | -                    | -             | -                               | -                      | -            | <sup>(2)</sup> 2,198     | 2,198          |
| Intangible assets and goodwill                                  | -                    | -             | -                               | -                      | -            | 142                      | 142            |
| Assets in respect of derivative instruments                     | 2,205                | 136           | 823                             | 112                    | 116          | 131                      | 3,523          |
| Other assets  | 2,001                | 19            | 980                             | 2                      | 477          | 201                      | 3,680          |
| Assets held for sale  | -                    | -             | 4,079                           | 108                    | 579          | <sup>(2)</sup> 85        | 4,851          |
| <b>Total assets</b>   | <b>123,562</b>       | <b>19,489</b> | <b>49,502</b>                   | <b>3,736</b>           | <b>3,140</b> | <b>4,233</b>             | <b>203,662</b> |
| <b>Liabilities</b>  |                      |               |                                 |                        |              |                          |                |
| Deposits from the public  | 89,533               | 7,181         | 44,638                          | 7,125                  | 3,281        | -                        | 151,758        |
| Deposits from banks   | 3,121                | 18            | 1,332                           | 26                     | 48           | -                        | 4,545          |
| Deposits from the Government                                    | 154                  | 86            | 631                             | -                      | -            | -                        | 871            |
| Securities loaned or sold under repurchase<br>agreements        | -                    | -             | 3,702                           | -                      | -            | -                        | 3,702          |
| Subordinated debt notes   | 2,405                | 7,480         | -                               | -                      | -            | -                        | 9,885          |
| Liabilities in respect of derivative<br>instruments             | 2,713                | 193           | 711                             | 208                    | 109          | 133                      | 4,067          |
| Other liabilities   | 9,764                | 147           | 625                             | 21                     | 111          | 182                      | 10,850         |
| Liabilities held for sale                                       | -                    | -             | 3,837                           | 109                    | 578          | -                        | 4,524          |
| <b>Total liabilities</b>  | <b>107,690</b>       | <b>15,105</b> | <b>55,476</b>                   | <b>7,489</b>           | <b>4,127</b> | <b>315</b>               | <b>190,202</b> |
| Difference  | 15,872               | 4,384         | (5,974)                         | (3,753)                | (987)        | 3,918                    | 13,460         |
| <b>Effect of non-hedging derivative<br/>instruments:</b>        |                      |               |                                 |                        |              |                          |                |
| Derivative instruments (except for options)                     | (13,025)             | (977)         | 9,477                           | 3,671                  | 854          | -                        | -              |
| Options in the money, net (in terms of<br>underlying asset)     | 245                  | -             | (289)                           | 14                     | 30           | -                        | -              |
| Options out of the money, net (in terms of<br>underlying asset) | 93                   | -             | (98)                            | 12                     | (7)          | -                        | -              |
| <b>Total</b>  | <b>3,185</b>         | <b>3,407</b>  | <b>3,116</b>                    | <b>(56)</b>            | <b>(110)</b> | <b>3,918</b>             | <b>13,460</b>  |
| Options in the money, net (discounted par<br>value)             | 190                  | -             | (341)                           | 122                    | 29           | -                        | -              |
| Options out of the money, net (discounted<br>par value)         | (248)                | -             | 95                              | 148                    | 5            | -                        | -              |

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified - classification of items in relation to buildings and equipment to non-current assets held for sale.

## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

| Audited   |                      |               |                                 |                        |              |                          |                |
|---|----------------------|---------------|---------------------------------|------------------------|--------------|--------------------------|----------------|
| December 31, 2015   |                      |               |                                 |                        |              |                          |                |
| Israeli currency  |                      |               | Foreign currency <sup>(1)</sup> |                        |              | Non<br>monetary<br>items | Total          |
| Non-linked  | Linked to<br>the CPI | In US\$       | In Euro                         | In other<br>currencies |              |                          |                |
| in NIS millions   |                      |               |                                 |                        |              |                          |                |
| <b>Assets</b>   |                      |               |                                 |                        |              |                          |                |
| Cash and deposits with banks                                    | 22,262               | 61            | 4,636                           | 690                    | 869          | -                        | 28,518         |
| Securities  | 16,776               | 4,048         | 16,127                          | 642                    | 39           | 1,303                    | 38,935         |
| Securities borrowed or purchased under<br>resale agreements     | 279                  | -             | -                               | -                      | -            | -                        | 279            |
| Credit to the public, net                                       | 83,196               | 14,854        | 26,538                          | 1,966                  | 662          | -                        | 127,216        |
| Credit to the Government  | 203                  | 195           | 14                              | 103                    | -            | -                        | 515            |
| Investments in affiliated companies                             | -                    | 2             | -                               | -                      | -            | 142                      | 144            |
| Buildings and equipment   | -                    | -             | -                               | -                      | -            | 2,175                    | 2,175          |
| Intangible assets and goodwill                                  | -                    | -             | -                               | -                      | -            | 142                      | 142            |
| Assets in respect of derivative instruments                     | 1,779                | 71            | 961                             | 125                    | 45           | 227                      | 3,208          |
| Other assets  | 1,938                | 26            | 1,031                           | 112                    | 405          | 184                      | 3,696          |
| Assets held for sale  | 30                   | -             | 254                             | 112                    | 7            | 29                       | 432            |
| <b>Total assets</b>   | <b>126,463</b>       | <b>19,257</b> | <b>49,561</b>                   | <b>3,750</b>           | <b>2,027</b> | <b>4,202</b>             | <b>205,260</b> |
| <b>Liabilities</b>  |                      |               |                                 |                        |              |                          |                |
| Deposits from the public  | 95,088               | 6,473         | 45,818                          | 7,235                  | 2,790        | -                        | 157,404        |
| Deposits from banks   | 2,213                | 6             | 1,417                           | 228                    | 43           | -                        | 3,907          |
| Deposits from the Government                                    | 139                  | 79            | 559                             | -                      | -            | -                        | 777            |
| Securities loaned or sold under repurchase<br>agreements        | -                    | -             | 3,833                           | -                      | -            | -                        | 3,833          |
| Subordinated debt notes   | 2,384                | 7,122         | -                               | 64                     | -            | -                        | 9,570          |
| Liabilities in respect of derivative<br>instruments             | 1,988                | 144           | 878                             | 192                    | 44           | 229                      | 3,475          |
| Other liabilities   | 9,879                | 145           | 680                             | 16                     | 80           | 185                      | 10,985         |
| Liabilities held for sale                                       | 26                   | -             | 1,262                           | 285                    | 102          | -                        | 1,675          |
| <b>Total liabilities</b>  | <b>111,717</b>       | <b>13,969</b> | <b>54,447</b>                   | <b>8,020</b>           | <b>3,059</b> | <b>414</b>               | <b>191,626</b> |
| Difference  | 14,746               | 5,288         | (4,886)                         | (4,270)                | (1,032)      | 3,788                    | 13,634         |
| <b>Effect of non-hedging derivative<br/>instruments:</b>        |                      |               |                                 |                        |              |                          |                |
| Derivative instruments (except for options)                     | (11,131)             | (2,047)       | 8,207                           | 4,089                  | 882          | -                        | -              |
| Options in the money, net (in terms of<br>underlying asset)     | 232                  | -             | (248)                           | 14                     | 2            | -                        | -              |
| Options out of the money, net (in terms of<br>underlying asset) | (164)                | -             | 75                              | 110                    | (21)         | -                        | -              |
| <b>Total</b>  | <b>3,683</b>         | <b>3,241</b>  | <b>3,148</b>                    | <b>(57)</b>            | <b>(169)</b> | <b>3,788</b>             | <b>13,634</b>  |
| Options in the money, net (discounted par<br>value)             | 263                  | -             | (275)                           | (1)                    | 13           | -                        | -              |
| Options out of the money, net (discounted<br>par value)         | (1,053)              | -             | 848                             | 210                    | (5)          | -                        | -              |

Footnote:

(1) Includes those linked to foreign currency.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

### A. COMPOSITION - CONSOLIDATED

| Unaudited  |                               |                        |                        |                        |                |
|--|-------------------------------|------------------------|------------------------|------------------------|----------------|
| June 30, 2016  |                               |                        |                        |                        |                |
|  | Book                          | Fair value             |                        |                        |                |
|  | value                         | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</sup> | Level 3 <sup>(1)</sup> | Total          |
| in NIS millions  |                               |                        |                        |                        |                |
| <b>Financial assets</b>                                  |                               |                        |                        |                        |                |
| Cash and deposits with banks                             | 26,784                        | 9,327                  | -                      | 17,474                 | 26,801         |
| Securities <sup>(2)</sup>                                | 38,053                        | 21,212                 | 16,448                 | 842                    | 38,502         |
| Securities borrowed or purchased under resale agreements | 288                           | -                      | -                      | 288                    | 288            |
| Credit to the public, net                                | 133,092                       | 2,737                  | 1                      | 130,247                | 132,985        |
| Credit to Governments                                    | 546                           | -                      | -                      | 613                    | 613            |
| Assets in respect of derivative instruments              | 3,812                         | 135                    | 2,367                  | 1,310                  | 3,812          |
| Other financial assets                                   | 1,730                         | 196                    | 21                     | 1,513                  | 1,730          |
| Financial assets held for sale <sup>(4)</sup>            | -                             | -                      | -                      | -                      | -              |
| <b>Total financial assets</b>                            | <sup>(3)</sup> <b>204,305</b> | <b>33,607</b>          | <b>18,837</b>          | <b>152,287</b>         | <b>204,731</b> |
| <b>Financial liabilities</b>                             |                               |                        |                        |                        |                |
| Deposits from the public                                 | 161,987                       | 18,927                 | 109,723                | 33,698                 | 162,348        |
| Deposits from banks                                      | 4,539                         | -                      | 4,278                  | 278                    | 4,556          |
| Deposits from the Government                             | 494                           | -                      | 391                    | 117                    | 508            |
| Securities loaned or sold under repurchase agreements    | 3,621                         | -                      | -                      | 3,887                  | 3,887          |
| Bonds and Subordinated debt notes                        | 8,765                         | 7,658                  | 266                    | 2,070                  | 9,994          |
| Liabilities in respect of derivative instruments         | 4,438                         | 135                    | 3,993                  | 310                    | 4,438          |
| Other financial liabilities                              | 7,437                         | 342                    | 28                     | 7,067                  | 7,437          |
| Financial liabilities held for sale <sup>(4)</sup>       | -                             | -                      | -                      | -                      | -              |
| <b>Total financial liabilities</b>                       | <sup>(3)</sup> <b>191,281</b> | <b>27,062</b>          | <b>118,679</b>         | <b>47,427</b>          | <b>193,168</b> |
| <b>Off-balance sheet financial instruments</b>           |                               |                        |                        |                        |                |
| Transactions in which the balance represents credit risk | 77                            | -                      | -                      | 77                     | 77             |

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 49,768 million and NIS 84,273 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 16 B - 16 C.
- (4) See Note 18.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## A. COMPOSITION - CONSOLIDATED (CONTINUED)

| Unaudited  |                              |                        |                        |                        |                |
|--|------------------------------|------------------------|------------------------|------------------------|----------------|
| June 30, 2015  |                              |                        |                        |                        |                |
|  | Book value                   | Fair value             |                        |                        | Total          |
|  |                              | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</sup> | Level 3 <sup>(1)</sup> |                |
| in NIS millions  |                              |                        |                        |                        |                |
| <b>Financial assets</b>                                  |                              |                        |                        |                        |                |
| Cash and deposits with banks                             | 31,205                       | 9,724                  | -                      | 21,505                 | 31,229         |
| Securities <sup>(2)</sup>                                | 36,590                       | 22,353                 | 13,915                 | 771                    | 37,039         |
| Securities borrowed or purchased under resale agreements | 607                          | -                      | -                      | 607                    | 607            |
| Credit to the public, net                                | 120,279                      | 1,486                  | 2                      | 119,451                | 120,939        |
| Credit to Governments                                    | 446                          | -                      | -                      | 498                    | 498            |
| Assets in respect of derivative instruments              | 3,523                        | 169                    | 2,530                  | 824                    | 3,523          |
| Other financial assets                                   | 1,873                        | 42                     | 29                     | 1,802                  | 1,873          |
| Financial assets held for sale <sup>(4)</sup>            | 4,759                        | 2,201                  | 1,897                  | 661                    | 4,759          |
| <b>Total financial assets</b>                            | <b><sup>(3)</sup>199,282</b> | <b>35,975</b>          | <b>18,373</b>          | <b>146,119</b>         | <b>200,467</b> |
| <b>Financial liabilities</b>                             |                              |                        |                        |                        |                |
| Deposits from the public                                 | 151,758                      | 17,310                 | 104,012                | 30,980                 | 152,302        |
| Deposits from banks                                      | 4,545                        | -                      | 4,378                  | 187                    | 4,565          |
| Deposits from the Government                             | 871                          | -                      | 735                    | 150                    | 885            |
| Securities loaned or sold under repurchase agreements    | 3,702                        | -                      | -                      | 3,996                  | 3,996          |
| Subordinated debt notes                                  | 9,885                        | 9,178                  | 39                     | 2,098                  | 11,315         |
| Liabilities in respect of derivative instruments         | 4,067                        | 169                    | 3,618                  | 280                    | 4,067          |
| Other financial liabilities                              | 8,169                        | 599                    | 32                     | 7,538                  | 8,169          |
| Financial liabilities held for sale <sup>(4)</sup>       | 4,477                        | 1,151                  | -                      | 3,326                  | 4,477          |
| <b>Total financial liabilities</b>                       | <b><sup>(3)</sup>187,474</b> | <b>28,407</b>          | <b>112,814</b>         | <b>48,555</b>          | <b>189,776</b> |
| <b>Off-balance sheet financial instruments</b>           |                              |                        |                        |                        |                |
| Transactions in which the balance represents credit risk | 63                           | -                      | -                      | 63                     | 63             |

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 51,618 million and NIS 82,557 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 16 B -16 C.
- (4) See Note 18.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## A. COMPOSITION - CONSOLIDATED (CONTINUED)

| Audited  |            |                        |                        |                        |         |
|--|------------|------------------------|------------------------|------------------------|---------|
| December 31, 2015  |            |                        |                        |                        |         |
|  | Book       | Fair value             |                        |                        |         |
|  | value      | Level 1 <sup>(1)</sup> | Level 2 <sup>(1)</sup> | Level 3 <sup>(1)</sup> | Total   |
| in NIS millions  |            |                        |                        |                        |         |
| Financial assets   |            |                        |                        |                        |         |
| Cash and deposits with banks                             | 28,518     | 11,563                 | -                      | 16,962                 | 28,525  |
| Securities <sup>(2)</sup>                                | 38,935     | 22,970                 | 15,568                 | 803                    | 39,341  |
| Securities borrowed or purchased under resale agreements | 279        | -                      | -                      | 279                    | 279     |
| Credit to the public, net                                | 127,216    | 1,280                  | 2                      | 126,352                | 127,634 |
| Credit to Governments                                    | 515        | -                      | -                      | 574                    | 574     |
| Assets in respect of derivative instruments              | 3,208      | 252                    | 2,235                  | 721                    | 3,208   |
| Other financial assets                                   | 1,905      | 59                     | 28                     | 1,818                  | 1,905   |
| Financial assets held for sale <sup>(4)</sup>            | 403        | -                      | 3                      | 400                    | 403     |
| Total financial assets                                   | (3)200,979 | 36,124                 | 17,836                 | 147,909                | 201,869 |
| Financial liabilities                                    |            |                        |                        |                        |         |
| Deposits from the public                                 | 157,404    | 18,890                 | 108,758                | 30,183                 | 157,831 |
| Deposits from banks                                      | 3,907      | 243                    | 3,543                  | 150                    | 3,936   |
| Deposits from the Government                             | 777        | -                      | 654                    | 137                    | 791     |
| Securities loaned or sold under repurchase agreements    | 3,833      | -                      | -                      | 4,118                  | 4,118   |
| Subordinated capital notes                               | 9,570      | 8,460                  | 43                     | 2,328                  | 10,831  |
| Liabilities in respect of derivative instruments         | 3,475      | 252                    | 2,905                  | 318                    | 3,475   |
| Other financial liabilities                              | 7,810      | 238                    | 33                     | 7,539                  | 7,810   |
| Financial liabilities held for sale <sup>(4)</sup>       | 1,675      | -                      | 1,675                  | -                      | 1,675   |
| Total financial liabilities                              | (3)188,451 | 28,083                 | 117,611                | 44,773                 | 190,467 |
| Off-balance sheet financial instruments                  |            |                        |                        |                        |         |
| Transactions in which the balance represents credit risk | 66         | -                      | -                      | 66                     | 66      |

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 50,999 million and NIS 85,383 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 16 B - 16 C.
- (4) See Note 18.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## B. ITEMS MEASURED AT FAIR VALUE – CONSOLIDATED

## 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

| ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS                 |   |   | Unaudited                                 |                                   |                  |                       |
|---|---|---|---|-----------------------------------|------------------|-----------------------|
| June 30, 2016   |   |   |   |                                   |                  |                       |
|   | Fair value measurements using -             |   |   |                                   |                  |                       |
|   | Quoted prices in an active market (level 1) | Other significant observable inputs (level 2) | Significant unobservable inputs (level 3) | Influence of deduction agreements | Total fair value | Balance sheet balance |
| In NIS millions   |   |   |   |                                   |                  |                       |
| <b>Assets</b>   |   |   |   |                                   |                  |                       |
| <b>Available for sale securities</b>                              |   |   |   |                                   |                  |                       |
| Of the Israeli Government   | 13,716                                      | 1,412   | -   | -                                 | 15,128           | 15,128                |
| Of foreign governments  | 204   | 521   | -   | -                                 | 725              | 725                   |
| Of Israeli financial institutions                                 | 11  | 43  | -   | -                                 | 54               | 54                    |
| Of foreign financial institutions                                 | -   | 1,403   | -   | -                                 | 1,403            | 1,403                 |
| Mortgage-backed-securities or Assets -backed-securities           | -   | 7,564   | -   | -                                 | 7,564            | 7,564                 |
| Of others in Israel   | 181   | 193   | -   | -                                 | 374              | 374                   |
| Of others abroad  | -   | 1,907   | -   | -                                 | 1,907            | 1,907                 |
| Shares  | 77  | -   | -   | -                                 | 77               | 77                    |
| <b>Total available-for-sale securities</b>                        | <b>14,189</b>                               | <b>13,043</b>                                 | <b>-</b>                                  | <b>-</b>                          | <b>27,232</b>    | <b>27,232</b>         |
| <b>Trading Securities</b>   |   |   |   |                                   |                  |                       |
| Of the Israeli Government   | 2,773                                       | 342   | -   | -                                 | 3,115            | 3,115                 |
| Of foreign governments  | -   | -   | -   | -                                 | -                | -                     |
| Of Israeli financial institutions                                 | -   | -   | -   | -                                 | -                | -                     |
| Of foreign financial institutions                                 | -   | 1   | -   | -                                 | 1                | 1                     |
| Mortgage-backed-securities or Assets -backed-securities           | -   | 56  | -   | -                                 | 56               | 56                    |
| Of others in Israel   | 6   | 8   | -   | -                                 | 14               | 14                    |
| Of others abroad  | -   | 14  | -   | -                                 | 14               | 14                    |
| Shares  | 6   | 1   | -   | -                                 | 7                | 7                     |
| <b>Total trading securities</b>                                   | <b>2,785</b>                                | <b>422</b>                                    | <b>-</b>                                  | <b>-</b>                          | <b>3,207</b>     | <b>3,207</b>          |
| <b>Credit to the public in respect of securities loaned</b>       | <b>2,737</b>                                | <b>1</b>                                      | <b>-</b>                                  | <b>-</b>                          | <b>2,738</b>     | <b>2,738</b>          |
| <b>Assets in respect of derivative instruments</b>                |   |   |   |                                   |                  |                       |
| Shekel/CPI Interest Rate Contracts                                | -   | -   | 182                                       | -                                 | 182              | 182                   |
| Other Interest Rate Contracts                                     | -   | 1,819   | 319                                       | -                                 | 2,138            | 2,138                 |
| Foreign Exchange Contracts  | 16  | 522   | 809                                       | -                                 | 1,347            | 1,347                 |
| Shares Contracts  | 119   | 26  | -   | -                                 | 145              | 145                   |
| Commodity and other Contracts                                     | -   | -   | -   | -                                 | -                | -                     |
| Total assets in respect of derivative instruments                 | 135   | 2,367   | 1,310                                     | -                                 | 3,812            | 3,812                 |
| <b>Other</b>  | <b>-</b>                                    | <b>21</b>                                     | <b>-</b>                                  | <b>-</b>                          | <b>21</b>        | <b>21</b>             |
| <b>Assets in respect of the "Maof" market operations</b>          | <b>196</b>                                  | <b>-</b>                                      | <b>-</b>                                  | <b>-</b>                          | <b>196</b>       | <b>196</b>            |
| <b>Total assets</b>   | <b>20,042</b>                               | <b>15,854</b>                                 | <b>1,310</b>                              | <b>-</b>                          | <b>37,206</b>    | <b>37,206</b>         |
| <b>Liabilities</b>  |   |   |   |                                   |                  |                       |
| <b>Deposits from the public in respect of securities borrowed</b> |   |   |   |                                   |                  |                       |
| CLN deposits  | 905   | 21  | -   | -                                 | 926              | 926                   |
|   | -   | -   | 325                                       | -                                 | 325              | 325                   |
| <b>Liabilities in respect of derivative instruments</b>           |   |   |   |                                   |                  |                       |
| Shekel/CPI Interest Rate Contracts                                | -   | -   | 187                                       | -                                 | 187              | 187                   |
| Other Interest Rate Contracts                                     | -   | 2,673   | -   | -                                 | 2,673            | 2,673                 |
| Foreign Exchange Contracts  | 16  | 1,320   | 123                                       | -                                 | 1,459            | 1,459                 |
| Shares Contracts  | 119   | -   | -   | -                                 | 119              | 119                   |
| Commodity and other Contracts                                     | -   | -   | -   | -                                 | -                | -                     |
| Total liabilities in respect of derivative instruments            | 135   | 3,993   | 310                                       | -                                 | 4,438            | 4,438                 |
| <b>Other</b>  | <b>-</b>                                    | <b>28</b>                                     | <b>-</b>                                  | <b>-</b>                          | <b>28</b>        | <b>28</b>             |
| <b>Commitments in respect of the "Maof" market operations</b>     | <b>196</b>                                  | <b>-</b>                                      | <b>-</b>                                  | <b>-</b>                          | <b>196</b>       | <b>196</b>            |
| <b>Short sales of securities</b>                                  | <b>146</b>                                  | <b>-</b>                                      | <b>-</b>                                  | <b>-</b>                          | <b>146</b>       | <b>146</b>            |
| <b>Total liabilities</b>  | <b>1,382</b>                                | <b>4,042</b>                                  | <b>635</b>                                | <b>-</b>                          | <b>6,059</b>     | <b>6,059</b>          |

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

## 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

| Unaudited  |   |   |   |   |                     |                             |
|--|---|---|---|---|---------------------|-----------------------------|
| June 30, 2015  |   |   |   |   |                     |                             |
| Fair value measurements using -                                      |   |   |   |   |                     |                             |
|  | Quoted<br>prices in<br>an active<br>market<br>(level 1) | Other<br>significant<br>observable<br>inputs<br>(level 2) | Significant<br>unobservable<br>inputs (level 3) | Influence of<br>deduction<br>agreements | Total fair<br>value | Balance<br>sheet<br>balance |
| In NIS millions  |   |   |   |   |                     |                             |
| <b>Assets</b>  |   |   |   |   |                     |                             |
| <b>Available for sale securities</b>                                 |   |   |   |   |                     |                             |
| Of the Israeli Government  | 13,453  | 1,149   | -   | -                                       | 14,602              | 14,602                      |
| Of foreign governments   | 841   | 235   | -   | -                                       | 1,076               | 1,076                       |
| Of Israeli financial institutions                                    | 298   | 43  | -   | -                                       | 341                 | 341                         |
| Of foreign financial institutions                                    | -   | 1,769   | -   | -                                       | 1,769               | 1,769                       |
| Mortgage-backed-securities or Assets -backed-securities <sup>o</sup> | -   | 7,178   | -   | -                                       | 7,178               | 7,178                       |
| Of others in Israel  | 563   | 223   | -   | -                                       | 786                 | 786                         |
| Of others abroad   | -   | 207   | -   | -                                       | 207                 | 207                         |
| Shares   | 558   | -   | -   | -                                       | 558                 | 558                         |
| <b>Total available-for-sale securities</b>                           | <b>15,713</b>   | <b>10,804</b>   | <b>-</b>  | <b>-</b>                                | <b>26,517</b>       | <b>26,517</b>               |
| <b>Trading Securities</b>  |   |   |   |   |                     |                             |
| Of the Israeli Government  | 1,434   | -   | -   | -                                       | 1,434               | 1,434                       |
| Of foreign governments   | 792   | -   | -   | -                                       | 792                 | 792                         |
| Of Israeli financial institutions                                    | 10  | -   | -   | -                                       | 10                  | 10                          |
| Of foreign financial institutions                                    | -   | 5   | -   | -                                       | 5                   | 5                           |
| Mortgage-backed-securities or Assets -backed-securities <sup>o</sup> | -   | 52  | -   | -                                       | 52                  | 52                          |
| Of others in Israel  | 85  | -   | -   | -                                       | 85                  | 85                          |
| Of others abroad   | -   | 2   | -   | -                                       | 2                   | 2                           |
| Shares   | 7   | 1   | -   | -                                       | 8                   | 8                           |
| <b>Total trading securities</b>                                      | <b>2,328</b>  | <b>60</b>   | <b>-</b>  | <b>-</b>                                | <b>2,388</b>        | <b>2,388</b>                |
| <b>Credit to the public in respect of securities loaned</b>          | <b>1,486</b>  | <b>2</b>  | <b>-</b>  | <b>-</b>                                | <b>1,488</b>        | <b>1,488</b>                |
| <b>Assets in respect of derivative instruments</b>                   |   |   |   |   |                     |                             |
| Shekel/CPI Interest Rate Contracts                                   | -   | -   | 103   | -                                       | 103                 | 103                         |
| Other Interest Rate Contracts  | -   | 1,794   | 123   | -                                       | 1,917               | 1,917                       |
| Foreign Exchange Contracts   | 36  | 705   | 598   | -                                       | 1,339               | 1,339                       |
| Shares Contracts   | 133   | 30  | -   | -                                       | 163                 | 163                         |
| Commodity and other Contracts  | -   | 1   | -   | -                                       | 1                   | 1                           |
| Total assets in respect of derivative instruments                    | 169   | 2,530   | 824   | -                                       | 3,523               | 3,523                       |
| <b>Other</b>   | <b>-</b>  | <b>29</b>   | <b>-</b>  | <b>-</b>                                | <b>29</b>           | <b>29</b>                   |
| <b>Assets in respect of the "Maof" market operations</b>             | <b>42</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>42</b>           | <b>42</b>                   |
| <b>Total assets</b>  | <b>19,738</b>   | <b>13,425</b>   | <b>824</b>                                      | <b>-</b>                                | <b>33,987</b>       | <b>33,987</b>               |
| <b>Liabilities</b>   |   |   |   |   |                     |                             |
| <b>Deposits from the public in respect of securities borrowed</b>    |   |   |   |   |                     |                             |
|  | 1,075   | 27  | -   | -                                       | 1,102               | 1,102                       |
| <b>Liabilities in respect of derivative instruments</b>              |   |   |   |   |                     |                             |
| Shekel/CPI Interest Rate Contracts                                   | -   | -   | 104   | -                                       | 104                 | 104                         |
| Other Interest Rate Contracts  | -   | 2,210   | -   | -                                       | 2,210               | 2,210                       |
| Foreign Exchange Contracts   | 36  | 1,407   | 176   | -                                       | 1,619               | 1,619                       |
| Shares Contracts   | 133   | -   | -   | -                                       | 133                 | 133                         |
| Commodity and other Contracts  | -   | 1   | -   | -                                       | 1                   | 1                           |
| Total liabilities in respect of derivative instruments               | 169   | 3,618   | 280   | -                                       | 4,067               | 4,067                       |
| <b>Other</b>   | <b>-</b>  | <b>32</b>   | <b>-</b>  | <b>-</b>                                | <b>32</b>           | <b>32</b>                   |
| <b>Commitments in respect of the "Maof" market operations</b>        | <b>27</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>27</b>           | <b>27</b>                   |
| <b>Short sales of securities</b>                                     | <b>572</b>  | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>572</b>          | <b>572</b>                  |
| <b>Total liabilities</b>   | <b>1,843</b>  | <b>3,677</b>  | <b>280</b>                                      | <b>-</b>                                | <b>5,800</b>        | <b>5,800</b>                |

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

## 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

| Audited  |   |   |   |   |                     |                             |
|--|---|---|---|---|---------------------|-----------------------------|
| December 31, 2015  |   |   |   |   |                     |                             |
| Fair value measurements using -                                      |   |   |   |   |                     |                             |
|  | Quoted<br>prices in<br>an active<br>market<br>(level 1) | Other<br>significant<br>observable<br>inputs<br>(level 2) | Significant<br>unobservable<br>inputs (level 3) | Influence of<br>deduction<br>agreements | Total fair<br>value | Balance<br>sheet<br>balance |
| In NIS millions  |   |   |   |   |                     |                             |
| <b>Assets</b>  |   |   |   |   |                     |                             |
| <b>Available for sale securities</b>                                 |   |   |   |   |                     |                             |
| Of the Israeli Government  | 14,147  | 1,194   | -   | -                                       | 15,341              | 15,341                      |
| Of foreign governments   | 582   | 330   | -   | -                                       | 912                 | 912                         |
| Of Israeli financial institutions                                    | 221   | 48  | -   | -                                       | 269                 | 269                         |
| Of foreign financial institutions                                    | 34  | 1,832   | -   | -                                       | 1,866               | 1,866                       |
| Mortgage-backed-securities or Assets -backed-securities <sup>o</sup> | -   | 7,529   | -   | -                                       | 7,529               | 7,529                       |
| Of others in Israel  | 228   | 224   | -   | -                                       | 452                 | 452                         |
| Of others abroad   | 66  | 1,239   | -   | -                                       | 1,305               | 1,305                       |
| Shares   | 493   | -   | -   | -                                       | 493                 | 493                         |
| <b>Total available-for-sale securities</b>                           | <b>15,771</b>   | <b>12,396</b>   | <b>-</b>  | <b>-</b>                                | <b>28,167</b>       | <b>28,167</b>               |
| <b>Trading Securities</b>  |   |   |   |   |                     |                             |
| Of the Israeli Government  | 1,923   | 85  | -   | -                                       | 2,008               | 2,008                       |
| Of foreign governments   | 835   | -   | -   | -                                       | 835                 | 835                         |
| Of Israeli financial institutions                                    | -   | -   | -   | -                                       | -                   | -                           |
| Of foreign financial institutions                                    | -   | 1   | -   | -                                       | 1                   | 1                           |
| Mortgage-backed-securities or Assets -backed-securities <sup>o</sup> | -   | 61  | -   | -                                       | 61                  | 61                          |
| Of others in Israel  | 21  | 9   | -   | -                                       | 30                  | 30                          |
| Of others abroad   | -   | 20  | -   | -                                       | 20                  | 20                          |
| Shares   | 6   | 1   | -   | -                                       | 7                   | 7                           |
| <b>Total trading securities</b>                                      | <b>2,785</b>  | <b>177</b>  | <b>-</b>  | <b>-</b>                                | <b>2,962</b>        | <b>2,962</b>                |
| <b>Credit to the public in respect of securities loaned</b>          | <b>1,280</b>  | <b>2</b>  | <b>-</b>  | <b>-</b>                                | <b>1,282</b>        | <b>1,282</b>                |
| <b>Assets in respect of derivative instruments</b>                   |   |   |   |   |                     |                             |
| Shekel/CPI Interest Rate Contracts                                   | -   | -   | 168   | -                                       | 168                 | 168                         |
| Other Interest Rate Contracts  | -   | 1,655   | 154   | -                                       | 1,809               | 1,809                       |
| Foreign Exchange Contracts   | 23  | 550   | 399   | -                                       | 972                 | 972                         |
| Shares Contracts   | 229   | 30  | -   | -                                       | 259                 | 259                         |
| Commodity and other Contracts  | -   | -   | -   | -                                       | -                   | -                           |
| Total assets in respect of derivative instruments                    | 252   | 2,235   | 721   | -                                       | 3,208               | 3,208                       |
| <b>Other</b>   | <b>-</b>  | <b>28</b>   | <b>-</b>  | <b>-</b>                                | <b>28</b>           | <b>28</b>                   |
| <b>Assets in respect of the "Maof" market operations</b>             | <b>59</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>59</b>           | <b>59</b>                   |
| <b>Total assets</b>  | <b>20,147</b>   | <b>14,838</b>   | <b>721</b>                                      | <b>-</b>                                | <b>35,706</b>       | <b>35,706</b>               |
| <b>Liabilities</b>   |   |   |   |   |                     |                             |
| <b>Deposits from the public in respect of securities borrowed</b>    |   |   |   |   |                     |                             |
| CLN deposits   | -   | -   | 345   | -                                       | 345                 | 345                         |
| <b>Liabilities in respect of derivative instruments</b>              |   |   |   |   |                     |                             |
| Shekel/CPI Interest Rate Contracts                                   | -   | -   | 149   | -                                       | 149                 | 149                         |
| Other Interest Rate Contracts  | -   | 2,125   | -   | -                                       | 2,125               | 2,125                       |
| Foreign Exchange Contracts   | 23  | 780   | 169   | -                                       | 972                 | 972                         |
| Shares Contracts   | 229   | -   | -   | -                                       | 229                 | 229                         |
| Commodity and other Contracts  | -   | -   | -   | -                                       | -                   | -                           |
| Total liabilities in respect of derivative instruments               | 252   | 2,905   | 318   | -                                       | 3,475               | 3,475                       |
| <b>Other</b>   | <b>-</b>  | <b>33</b>   | <b>-</b>  | <b>-</b>                                | <b>33</b>           | <b>33</b>                   |
| <b>Commitments in respect of the "Maof" market operations</b>        | <b>59</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>59</b>           | <b>59</b>                   |
| <b>Short sales of securities</b>                                     | <b>179</b>  | <b>-</b>  | <b>-</b>  | <b>-</b>                                | <b>179</b>          | <b>179</b>                  |
| <b>Total liabilities</b>   | <b>1,355</b>  | <b>2,963</b>  | <b>663</b>                                      | <b>-</b>                                | <b>4,981</b>        | <b>4,981</b>                |



## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

## 2. ITEMS MEASURED ACCORDING TO FAIR VALUE NOT ON A RECURRING BASIS

| Unaudited   |         |         |         |                     |  |  |
|---|---------|---------|---------|---------------------|--|--|
| June 30, 2016   |         |         |         |                     |  |  |
|   |         |         |         |                     | Profit (Loss)<br>for the three<br>months<br>ended June<br>30, 2016 | Profit (Loss)<br>for the six<br>months<br>ended June<br>30, 2016 |
|   | Level 1 | Level 2 | Level 3 | Total fair<br>value |  |  |
| In NIS millions   |         |         |         |                     |  |  |
| Impaired credit the collection of which is collateral dependent | -       | -       | 1,677   | 1,677               | (4)  | (53)   |
| Other   | -       | -       | 16      | 16                  | -  | -  |

| Unaudited   |         |         |         |                     |  |  |
|---|---------|---------|---------|---------------------|--|--|
| June 30, 2015   |         |         |         |                     |  |  |
|   |         |         |         |                     | Profit (Loss)<br>for the three<br>months<br>ended June<br>30, 2015 | Profit (Loss)<br>for the six<br>months<br>ended June<br>30, 2015 |
|   | Level 1 | Level 2 | Level 3 | Total fair<br>value |  |  |
| In NIS millions   |         |         |         |                     |  |  |
| Impaired credit the collection of which is collateral dependent | -       | -       | 1,907   | 1,907               | 56   | (8)  |
| Other   | -       | -       | 16      | 16                  | -  | -  |

| Audited   |         |         |         |                     | Profit (Loss)<br>for the year<br>ended<br>December<br>31, 2015 |
|---|---------|---------|---------|---------------------|--|
| December 31, 2015   |         |         |         |                     |  |
|   | Level 1 | Level 2 | Level 3 | Total fair<br>value |  |
| In NIS millions   |         |         |         |                     |  |
| Impaired credit the collection of which is collateral dependent | -       | -       | 1,810   | 1,810               | (225)  |
| Other   | -       | -       | 15      | 15                  |  |

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED

## 1. FOR A PERIOD OF THREE MONTHS ENDED JUNE 30, 2016:

| Unaudited  |                                 |  |           |              |           |                        |                      |                                |  |
|--|---------------------------------|--|-----------|--------------|-----------|------------------------|----------------------|--------------------------------|--|
|  | Fair value as at March 31, 2016 | Total realized and unrealized gains (losses) included in the statement of income | Issuances | Acquisitions | Clearings | Transfers from level 3 | Transfers to level 3 | Fair value as at June 30, 2016 | Unrealized gains (losses) in respect of held instruments as at June 30, 2016 |
| in NIS millions  |                                 |  |           |              |           |                        |                      |                                |  |
| <b>Net Assets (Liabilities) in respect of derivative instruments</b> |                                 |  |           |              |           |                        |                      |                                |  |
| Shekel/CPI Interest Rate Contracts                                   | 19                              | (1)(30)  | -         | -            | 6         | -                      | -                    | (5)                            | (1)(34)  |
| Other Interest Rate Contracts  | 257                             | (1)96  | -         | -            | (53)      | (1)                    | 20                   | 319                            | (1)96  |
| Foreign Exchange Contracts   | 576                             | (1)33  | -         | (31)         | 112       | (8)                    | 4                    | 686                            | (1)27  |
| <b>Total</b>   | <b>852</b>                      | <b>99</b>  | <b>-</b>  | <b>(31)</b>  | <b>65</b> | <b>(9)</b>             | <b>24</b>            | <b>1,000</b>                   | <b>89</b>  |
| <b>Liabilities</b>   |                                 |  |           |              |           |                        |                      |                                |  |
| <b>CLN Deposits</b>  | <b>(339)</b>                    | <b>(4)</b>   | <b>-</b>  | <b>-</b>     | <b>18</b> | <b>-</b>               | <b>-</b>             | <b>(325)</b>                   | <b>(4)</b>   |

## 2. FOR A PERIOD OF THREE MONTHS ENDED JUNE 30, 2015:

| Unaudited  |                                 |  |           |              |              |                        |                      |                                |  |
|--|---------------------------------|--|-----------|--------------|--------------|------------------------|----------------------|--------------------------------|--|
|  | Fair value as at March 31, 2015 | Total realized and unrealized gains (losses) included in the statement of income | Issuances | Acquisitions | Clearings    | Transfers from level 3 | Transfers to level 3 | Fair value as at June 30, 2015 | Unrealized gains (losses) in respect of held instruments as at June 30, 2015 |
| in NIS millions  |                                 |  |           |              |              |                        |                      |                                |  |
| <b>Net Assets (Liabilities) in respect of derivative instruments</b> |                                 |  |           |              |              |                        |                      |                                |  |
| Shekel/CPI Interest Rate Contracts                                   | (18)                            | (1)(2)-  | -         | -            | 17           | -                      | -                    | (1)                            | (1)14  |
| Other Interest Rate Contracts  | 176                             | (1)(60)  | -         | -            | (9)          | -                      | 16                   | 123                            | (1)(60)  |
| Foreign Exchange Contracts   | 592                             | (1)(46)  | (2)-      | (10)         | (130)        | 6                      | 10                   | 422                            | (1)(71)  |
| <b>Total</b>   | <b>750</b>                      | <b>(106)</b>   | <b>-</b>  | <b>(10)</b>  | <b>(122)</b> | <b>6</b>               | <b>26</b>            | <b>544</b>                     | <b>(117)</b>   |

Footnotes:

(1) Included in the statement of income in the item "Non-interest financing income"

(2) An amount lower than NIS 1 million

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED (CONTINUED)

## 3. FOR A PERIOD OF SIX MONTHS ENDED JUNE 30, 2016:

| Audited  |   |   |                  |              |              |                              |                         |   |   |
|--|---|---|------------------|--------------|--------------|------------------------------|-------------------------|---|---|
|  | Fair value<br>as at<br>December<br>31, 2015 | Total<br>realized<br>and<br>unrealized<br>gains<br>(losses)<br>included<br>in the<br>statement<br>of income | Issuances        | Acquisitions | Clearings    | Transfers<br>from<br>level 3 | Transfers<br>to level 3 | Fair value<br>as at<br>June 30,<br>2016 | Unrealized<br>gains<br>(losses) in<br>respect of<br>instruments<br>held<br>as at June<br>30, 2016 |
| in NIS millions  |   |   |                  |              |              |                              |                         |   |   |
| <b>Net Assets (Liabilities) in respect of derivative instruments</b> |   |   |                  |              |              |                              |                         |   |   |
| Shekel/CPI Interest Rate<br>Contracts                                | 19  | <sup>(1)</sup> (13)   | -                | -            | (11)         | -                            | -                       | (5)                                     | <sup>(1)</sup> (13)   |
| Other Interest Rate<br>Contracts                                     | 154   | <sup>(1)</sup> 244  | -                | -            | (81)         | (8)                          | 10                      | 319                                     | <sup>(1)</sup> 244  |
| Foreign Exchange Contracts   | 230   | <sup>(1)</sup> 605  | <sup>(2)</sup> - | (93)         | (26)         | (31)                         | 1                       | 686                                     | <sup>(1)</sup> 600  |
| <b>Total</b>   | <b>403</b>                                  | <b>836</b>  | <b>-</b>         | <b>(93)</b>  | <b>(118)</b> | <b>(39)</b>                  | <b>11</b>               | <b>1,000</b>                            | <b>831</b>  |
| <b>Liabilities</b>   |   |   |                  |              |              |                              |                         |   |   |
| CLN Deposits   | (345)                                       | (7)   | -                | -            | 27           | -                            | -                       | (325)                                   | (6)   |

Footnotes:

(1) Included in the statement of income in the item "Non-interest financing income"

(2) An amount lower than NIS 1 million

## 4. FOR A PERIOD OF SIX MONTHS ENDED JUNE 30, 2015:

| Unaudited  |   |   |           |              |              |                              |                         |   |   |
|--|---|---|-----------|--------------|--------------|------------------------------|-------------------------|---|---|
|  | Fair value<br>as at<br>December<br>31, 2014 | Total<br>realized<br>and<br>unrealized<br>gains<br>(losses)<br>included<br>in the<br>statement<br>of income | Issuances | Acquisitions | Clearings    | Transfers<br>from<br>level 3 | Transfers<br>to level 3 | Fair value<br>as at<br>June 30,<br>2015 | Unrealized<br>gains<br>(losses) in<br>respect of<br>instruments<br>held<br>as at June<br>30, 2015 |
| in NIS millions  |   |   |           |              |              |                              |                         |   |   |
| <b>Net Assets (Liabilities) in respect of derivative instruments</b> |   |   |           |              |              |                              |                         |   |   |
| Shekel/CPI Interest Rate<br>Contracts                                | (19)  | <sup>(1)</sup> 3  | -         | -            | 15           | -                            | -                       | (1)                                     | <sup>(1)</sup> 18   |
| Other Interest Rate<br>Contracts                                     | 145   | <sup>(1)</sup> 35   | -         | -            | (43)         | (13)                         | <sup>(2)</sup> (1)      | 123                                     | <sup>(1)</sup> 30   |
| Foreign Exchange Contracts   | 551   | <sup>(1)</sup> 387  | -         | (71)         | (439)        | (4)                          | (2)                     | 422                                     | <sup>(1)</sup> 273  |
| <b>Total</b>   | <b>677</b>                                  | <b>425</b>  | <b>-</b>  | <b>(71)</b>  | <b>(467)</b> | <b>(17)</b>                  | <b>(3)</b>              | <b>544</b>                              | <b>321</b>  |

Footnotes:

(1) Included in the statement of income in the item "Non-interest financing income"

(2) An amount lower than NIS 1 million

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED (CONTINUED)

## 5. FOR THE YEAR ENDED DECEMBER 31, 2015:

| Audited  |                                    |   |                  |              |              |                        |                      |                                    |   |
|--|------------------------------------|---|------------------|--------------|--------------|------------------------|----------------------|------------------------------------|---|
|  | Fair value as at December 31, 2014 | Total realized and unrealized gains included in the statement of income | Issuances        | Acquisitions | Clearings    | Transfers from level 3 | Transfers to level 3 | Fair value as at December 31, 2015 | Unrealized gains in respect of held instruments as at December 31, 2015 |
|  |                                    |   |                  |              |              |                        |                      |                                    |   |
| in NIS millions  |                                    |   |                  |              |              |                        |                      |                                    |   |
| <b>Net Assets (Liabilities) in respect of derivative instruments</b> |                                    |   |                  |              |              |                        |                      |                                    |   |
| Shekel/CPI Interest Rate Contracts                                   | (19)                               | <sup>(1)</sup> 33   | -                | -            | 5            | -                      | -                    | 19                                 | <sup>(1)</sup> 32   |
| Other Interest Rate Contracts  | 145                                | <sup>(1)</sup> 69   | -                | -            | (72)         | (12)                   | <sup>(2)</sup> 24    | 154                                | <sup>(1)</sup> 78   |
| Foreign Exchange Contracts   | 551                                | <sup>(1)</sup> 343  | <sup>(2)</sup> - | (45)         | (618)        | <sup>(2)</sup> -       | (1)                  | 230                                | <sup>(1)</sup> 213  |
| <b>Total</b>   | <b>677</b>                         | <b>445</b>  | <b>-</b>         | <b>(45)</b>  | <b>(685)</b> | <b>(12)</b>            | <b>23</b>            | <b>403</b>                         | <b>323</b>  |
| <b>Liabilities</b>   |                                    |   |                  |              |              |                        |                      |                                    |   |
| CLN Deposits   | -                                  | (7)   | (408)            | -            | 70           | -                      | -                    | (345)                              | (6)   |

## Footnotes:

(1) Included in the statement of income in the item "Non-interest financing income"

(2) An amount lower than NIS 1 million

## D. TRANSFERS BETWEEN HIERARCHY LEVELS OF FAIR VALUE

Immaterial transfers to or from level 3 were made in the first half of 2016, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

## E. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3

## 1. QUANTITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

|  |                                   | Unaudited            |                             |
|--|-----------------------------------|----------------------|-----------------------------|
|  | Fair value as at<br>June 30, 2016 | Valuation Techniques | Range<br>(Weighted Average) |
|  | In NIS millions                   | Unobservable inputs  | In %                        |

## A. Items measured at fair value not on a recurring basis

|   |       |  |  |
|---|-------|--|--|
| Impaired credit the collection of which is collateral dependent | 1,677 | Discounted cash flow, assessments and evaluation | Discount rate, real estate market inputs |
| Other   | 16    | Valuation by an expert assessor                  | Company value, real estate market inputs |

## B. Items measured at fair value on a recurring basis

## Net Assets (Liabilities) in respect of derivative instruments

|                                    |     |  |  |                              |
|------------------------------------|-----|--|--|------------------------------|
| Shekel/CPI Interest Rate Contracts | (5) | Discounted cash flow                                     | One year period inflation expectations | From -0.46% to 4.60% (1.34%) |
|                                    |     |  | Counterparty credit risk (CVA)         | From 0.00% to 4.74% (0.11%)  |
| Other Interest Rate Contracts      | 319 | Discounted cash flow                                     | Counterparty credit risk (CVA)         | From 0.00% to 2.55% (0.24%)  |
| Foreign Exchange Contracts         | 686 | Discounted cash flow                                     | One year period inflation expectations | From -0.44% to 4.60% (0.86%) |
|                                    |     | Discounted cash flow, Models for the pricing of options. | Counterparty credit risk (CVA)         | From 0.00% to 1.86% (0.03%)  |

## Liabilities

|              |     |                      |                                     |  |
|--------------|-----|----------------------|-------------------------------------|--|
| CLN Deposits | 325 | Discounted cash flow | Credit risk of the underlying asset |  |
|--------------|-----|----------------------|-------------------------------------|--|

|  |                                   | Unaudited            |                             |
|--|-----------------------------------|----------------------|-----------------------------|
|  | Fair value as at<br>June 30, 2015 | Valuation Techniques | Range<br>(Weighted Average) |
|  | In NIS millions                   | Unobservable inputs  | In %                        |

## A. Items measured at fair value not on a recurring basis

|   |       |  |  |
|---|-------|--|--|
| Impaired credit the collection of which is collateral dependent | 1,907 | Discounted cash flow, assessments and evaluation | Discount rate, real estate market inputs |
| Other   | 16    | Valuation by an expert assessor                  | Company value, real estate market inputs |

## B. Items measured at fair value on a recurring basis

## Net Assets in respect of derivative instruments

|                               |     |   |  |                              |
|-------------------------------|-----|---|--|------------------------------|
| Other Interest Rate Contracts | 123 | Discounted cash flow                                    | Counterparty credit risk (CVA)         | From 0.00% to 25.58% (0.27%) |
| Foreign Exchange Contracts    | 422 | Discounted cash flow                                    | One year period inflation expectations | From -0.13% to 4.91% (2.01%) |
|                               |     | Discounted cash flow, Models for the pricing of options | Counterparty credit risk (CVA)         | From 0.00% to 18.11% (0.18%) |

## Net Liabilities in respect of derivative instruments

|                                    |   |                      |  |                              |
|------------------------------------|---|----------------------|--|------------------------------|
| Shekel/CPI Interest Rate Contracts | 1 | Discounted cash flow | One year period inflation expectations | From -0.14% to 4.91% (1.11%) |
|                                    |   |                      | Counterparty credit risk (CVA)         | From 0.00% to 7.39% (0.9%)   |

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### E. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3 (CONTINUED)

#### 1. QUANTITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3 (CONTINUED)

|   |  |   | Audited                                     |                               |
|---|--|---|---|-------------------------------|
|   | Fair value as at<br>December 31,<br>2015 | Valuation Techniques  | Unobservable inputs                         | Range<br>(Weighted Average)   |
|   | In NIS millions                          |   |   | In %                          |
| A. Items measured at fair value not on a recurring basis              |  |   |   |                               |
| Impaired credit the collection<br>of which is collateral<br>dependent | 1,810                                    | Discounted cash flow,<br>assessments and<br>evaluation        | Discount rate, real<br>estate market inputs |                               |
| Other   | 15                                       | Valuation by an expert<br>assessor                            | Company value, real<br>estate market inputs |                               |
| B. Items measured at fair value on a recurring basis                  |  |   |   |                               |
| Net Assets in respect of derivative instruments                       |  |   |   |                               |
| Shekel/CPI Interest Rate<br>Contracts                                 | 19                                       | Discounted cash flow  | One year period inflation<br>expectations   | From -4.74% to 0.31% (-2.08%) |
|   |  |   | Counterparty credit risk<br>(CVA)           | From 0.00% to 7.61% (0.68%)   |
| Other Interest Rate Contracts   | 154                                      | Discounted cash flow  | Counterparty credit risk<br>(CVA)           | From 0.00% to 12.46% (0.20%)  |
| Foreign Exchange Contracts  | 230                                      | Discounted cash flow  | One year period inflation<br>expectations   | From -4.59% to 0.33% (-1.37%) |
|   |  | Discounted cash flow,<br>Models for the pricing<br>of options | Counterparty credit risk<br>(CVA)           | From 0.00% to 3.83% (0.04%)   |
| Liabilities   |  |   |   |                               |
| CLN Deposits  | 345                                      | Discounted cash flow  | Credit risk of the<br>underlying asset      |                               |

#### 2. QUALITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are expectations of inflation up to one year, and adjustments regarding counterparty credit risk (CVA).

As the inflation forecasts rise (fall) and the Bank commits to pay the index-linked amount, so the fair value falls (rises). As the inflation forecasts rise (fall) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value rises (falls).

The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

## 17. CREDIT CARD ACTIVITY

### A. Holding means of control in Diners

**Acquisition of the minority interest in Diners.** On November 29, 2015, ICC and Diners, the first party, entered into an agreement with Dor-Alon Finances Ltd. ("Dor-Alon") and with Alon Blue Square Israel Ltd. ("Blue Square"), the second party, whereby ICC will acquire all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the "Sold Shares"), so that upon conclusion of the transaction ICC will hold all the rights (100%) in Diners.

The transaction was consummated on December 15, 2015. On this date, in consideration for the transfer of the shares, ICC paid a total amount of NIS 130 million, to Blue Square and Dor Alon.

A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent.

- B. (1) Events regarding the clearing of international electronic trade transactions and other matters.** In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management.

A number of trading houses and clusterers had raised demands regarding the burden of monetary sanctions applying to them and the reduction in electronic trade clearing operations conducted with them, which as alleged by them, resulted in heavy damage.

- (2) Notices by the State Attorney.** In continuation of the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department of the State Attorney Office, according to which a file with regards to an investigation of suspicions against ICC, had been delivered for perusal of the State Attorney.

On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering.

The suspicion brief describes two cases in which, according to the Prosecution, ICC was involved together with others.

In the first affair it has been alleged that during 2006 through 2009 (hereinafter: "the relevant period"), ICC, through who has officiated as CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (jointly and severally: "the Officers"), together or with others, acted fraudulently regarding false coding of transactions cleared by ICC, and also acted in contradiction with the Prohibition of Money Laundering Act. In the second affair it has been alleged that ICC, through the Officers and together or with others, has presented false display with regards the splitting of trading houses records who has cleared through ICC, thus receiving funds and producing gains fraudulently, as well as acting in contradiction with the Prohibition of Money Laundering Act. The transactions turnover that as alleged is attributed to ICC in relation with the alleged offences is NIS billions.

As stated, in the announcement of the State Attorney ICC has the right to submit a motion to refrain from filing an indictment, whether in writing or by way of an oral plea.

In May 2015, the representative of ICC received a copy of the core of the investigation material in this case. In continuation thereof, a hearing was held in October 2015. In the opinion of its legal consultants, ICC has good arguments against being indicted and it raised them in the hearing held.

The decision as to serving an indictment against ICC, if at all, as well as a decision as to which offences and on the basis of what facts an indictment will be filed, shall be made following the formation of the position of the State Attorney with respect to all those involved in the case.

According to the law, the Court is authorized to impose fines on ICC in respect of the alleged offences, as well as instructs the forfeiture of funds, if such funds are proved to be offence monies.

## 17. CREDIT CARD ACTIVITY (CONTINUED)

ICC and the Bank, based on the opinion of their legal consultants, are of the opinion that, at this stage, prior to taking the decision whether to indict ICC, difficulty exists to assess whether an indictment will be filed, and if so, than on what charges and against whom it will be filed. Furthermore, at this early stage, difficulty exists in assessing the results of the measures that would be adopted, if at all, and their implications on ICC.

Nevertheless, as a precaution, based on a preliminary assessment and an examination of the material received by ICC, ICC has recorded a provision of NIS 40 million. Nothing in the aforesaid should be deemed as prejudicing ICC's position in any way with regard to the grounds for its defense.

In the event that the claims raised in the letter of suspicions are admitted, they might expose ICC to various additional risks, the chances of the realization of which cannot be assessed. ICC has strong arguments against them.

The Supervisor of Banks informed ICC on April 20, 2015, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC.

- (3) Motion for approval of a derivative claim.** On May 7, 2015, the Bank received a claim together with a motion for approval of the claim as a derivative action (numerous), that had been filed with the Tel Aviv-Yafo District Court. The Court is requested to approve submission of a derivative action against sixteen officers and other executives officiating during the relevant period and by a subsidiary of the subsidiary "ICC International Ltd.", which on December 31, 2009, merged into ICC and was struck off ("the granddaughter company"), in respect of the alleged damage caused to ICC and the granddaughter company and further damage expected to be caused to it, as alleged, with respect to their international clearing operations in the years 2006-2009.

The Appellant claims that the respondent Officers and other responsible employees, had, among other things, violated their duties causing, as claimed by him, the alleged damage, which is assessed by him at NIS 100 million. The Appellant further argues the potential risk of forfeiture of funds to the tune of NIS billions, as part of the criminal proceedings, if instituted, and of reputation and other damages that are not being assessed, all as claimed by the Appellant.

With the consent of the Appellant, several extensions of the date for submission of a response were given. According to the decision of the Court, the date for submission of responses by the Responders was fixed for November 1, 2016.

- C. Acquisition of VISA Europe.** On November 2, 2015, VISA Inc. and VISA Europe Ltd. Announced entry into an agreement whereby VISA Inc. will acquire VISA Europe. The transaction is made up of a cash payment and special preferred shares, as well as a future consideration.

On June 21, 2016, after having obtained the regulatory approvals, the immediate cash consideration in the amount of Euro 71 million, was received. According to information received from VISA, an additional future cash consideration of Euro 6 million, which is expected to be received.

In addition, ICC has received restricted preferred shares for periods of 4-12 years, which are convertible into Visa Inc. shares, under terms prescribed in the sale transaction.

The consideration for the transaction is divisible among the Bank, ICC and FIBI, all having the status of "Principal Member" in VISA Europe. The division will be conducted in the future in accordance with an agreed division mechanism formed by the parties.

The division mechanism has been approved by the authorized organs of the parties.

Following the consummation of the transaction a net profit of approx. NIS 178 million was recognized in the financial statements as of June 30, 2016. For further details, see Note 3 above.

On July 5, 2016, VISA Europe informed that following the consummation of the transaction, the rebates program for members of the organization will be terminated as from October 1, 2016. VISA Europe announced on July 22, 2016, an increase in the amounts of clearing fees charged by it, starting on January 1, 2017.

On June 20, 2016, ICC and VISA Europe signed an agreement for the years 2016-2019. This agreement replaces an earlier agreement signed by the parties in April 2013. According to the amendment to the agreement, ICC is expected to receive supporting awards from VISA in the years 2016 to 2019.

At this stage, it is not possible to assess the effect of the termination of rebates plan and increased clearing fees on the one hand, and the support agreement on the other hand, on the results of ICC in the future.



## 18. ASSETS HELD FOR SALE – CONSOLIDATED

- A. **Discount Bank Latin America.** The assets and liabilities of DBLA as of December 31, 2013 (and since then), have been classified as held for sale. An agreement for the sale of the operations of DBLA was signed on December 18, 2014. The transaction was consummated on November 1, 2015.
- B. **IDB (Swiss) Bank.** The assets and liabilities of IDB (Swiss) Bank as of September 30, 2015 (and since then), which are related to activity with customers, are classified as held for sale. For details regarding an agreement for the sale of customer activity, see Note 10 b 9 above. The transaction was consummated on February 26, 2016.

Following are data regarding assets and liabilities classified as held for sale:

|  | Unaudited       |              | Audited      |
|--|-----------------|--------------|--------------|
|  | June 30         |              | December 31  |
|  | 2016            | 2015         | 2015         |
|  | in NIS millions |              |              |
| <b>Assets classified as held for sale</b>          |                 |              |              |
| Cash and deposits with banks                       | -               | 2,123        | -            |
| Securities   | -               | 2,149        | -            |
| Credit to the public, Net                          | -               | 468          | 400          |
| Credit to Governments                              | -               | 19           | -            |
| Buildings and equipment                            | 9               | (1)85        | 29           |
| Assets in respect of derivative instruments        | -               | -            | 3            |
| Other assets                                       | -               | 7            | -            |
| <b>Total</b>                                       | <b>9</b>        | <b>4,851</b> | <b>432</b>   |
| <b>Liabilities classified as held for sale</b>     |                 |              |              |
| Deposits from the public                           | -               | 4,468        | 1,672        |
| Deposits from banks                                | -               | 9            | -            |
| Liabilities in respect of derivative instruments   | -               | -            | 3            |
| Other liabilities                                  | -               | 47           | -            |
| <b>Total</b>                                       | <b>-</b>        | <b>4,524</b> | <b>1,675</b> |
| <b>Guarantees and Unutilized credit facilities</b> | <b>-</b>        | <b>117</b>   | <b>-</b>     |

Footnote:

(1) Reclassified - classification of items from buildings and equipment to noncurrent assets intended for sale.

## 19. CHANGES IN TAX RATES

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The Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, was published on January 5, 2016, which, among other things reduced the company tax rate from 26.5% to 25%, with effect from January 1, 2016. Following the reduction in the tax rate, as stated, the statutory tax rate for 2016 was reduced from 37.18% to 35.9%.

The decrease in the rate of tax reduced the liabilities of the Bank, MDB and ICC, for the payment of certain employee benefits, estimated at NIS 50 million (reduction in profit).

**Additional reduction in the rate of corporation tax.** In July 2016, the Ministry of Finance announced its intention to reduce corporation tax, in order to encourage economic growth. This decision is expected to take effect as from 2017, when until 2018 the corporation tax will be reduced by 2%. At this stage a Bill in the matter has not yet been published.

# CORPORATE GOVERNANCE, AUDIT, ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

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## CORPORATE GOVERNANCE AND AUDIT

### BOARD OF DIRECTORS AND MANAGEMENT

**Proposal for the appointment of Directors.** On July 11, 2016, an announcement was published by the Committee for the Appointment of Directors in Banking Corporations in the framework of which the committee announced a list of three candidates proposed by it for appointment as directors in the Bank, for the purpose of election in 2016. The candidates proposed by the Committee will stand for election by the Bank's coming general meeting of shareholders, which is to elect two directors officiating as external directors in terms of Proper Conduct of Banking Business Directive No. 301 (for details of the Committee, see the 2015 annual report, p. 481).

### ORGANIZATIONAL CHANGES AND APPOINTMENTS

The Bank's Board of Directors decided on May 18, 2016, to approve the following organizational changes and appointments:

Mr. Yair Avidan, acting as Executive Vice President and Head of the Risk Management Group at the Bank, is appointed Senior Executive Vice President, member of Management, in charge of the subsidiaries of the Discount Bank Group (see "Group Management" hereunder).

In addition, Mr. Avidan is appointed Chairman of the Board of Mercantile Discount Bank, replacing in this office Ms. Lilach Asher-Topilsky, President & CEO of the Bank. In addition, Mr. Avidan is appointed as Director of several additional subsidiaries.

Mr. Avi Levy, acting as Executive Vice President and Head of the Customer Assets Division, is appointed Senior Executive Vice President and Head of the Risk Management Group at the Bank, replacing in this office Mr. Yair Avidan.

The Customer Asset Division is to be split up and its units will be merged with other existing divisions/groups.

In addition, a new department, the digital department, is to be established as part of the Technologies and Operations Division. This new department will lead the acceleration of actions leading to the improvement of the overall service to Bank customers, both personal and digital, through the various channels and centers.

The said appointments became effective on July 21, 2016.

### MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first half of 2016, the Board of Directors held 13 meetings. In addition, 42 meetings of committees of the Board of Directors were held.

### THE INTERNAL AUDIT IN THE GROUP

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work programs and the considerations at its basis were included in the 2015 Annual Report (pp. 383-386).

**Updates.** During the second quarter of 2016 the following periodic reports were submitted and discussed:

- The annual report on the activities of the internal audit in 2015 was submitted on March 9, 2016, and discussed by the Audit Committee on March 15, 2016 and by the Board of Directors on April 6, 2016;
- The quarterly report on the activities of the internal audit in the first quarter of 2016 was submitted on April 13, 2016, and discussed by the Audit Committee on May 31, 2016;

- The quarterly report on the activities of the internal audit in the second quarter of 2016 is being submitted these days to the Audit Committee.

## GROUP MANAGEMENT

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies, which updates and replaces the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to supervise the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company.

**The establishment of a Subsidiary and Investee Companies Division.** On July 21, 2016, Mr. Yair Avidan, Senior Vice President, was appointed to head the Subsidiaries and Investee Companies Division, which was established on that date. The Division is designed to comprise a central factor in the leading and promotion of holistic management in strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group. For further details, see the 2015 annual report (p. 393).

## INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The volunteer activity within the framework of the "Lema'an" Project continued during the second quarter of 2016 - Discount Employees for the Community, in the framework of which, volunteer Bank employees contribute their time and compassion. The volunteer activity is varied and provides assistance and support to a wide range of components of the population in Israel: children and youth, students, servicemen, disadvantaged sectors, elderly, handicapped, infirm and such like.

In addition to the activities of "Lema'an" - Discount Employees for the Community project, described hereunder, the following activities were also conducted in the second quarter of 2016 in the culture and arts field, providing sponsorship and donations.

In the second quarter of 2016, the Bank continued supporting children and youth in various states of distress.

### "LEMA'AN" PROJECT - DISCOUNT EMPLOYEES FOR THE COMMUNITY

The varied activity continued in the second quarter of 2016, while focusing on voluntary activities within the framework of various associations active among a wide range of populations in risk and distress situations. The following projects conducted in the second quarter of 2016 deserve special mention:

**Passover activities.** These were held at the various volunteer centers all over the country, including preparation of food parcels to families in need and distribution of parcels to these families.

**Shavuot (Pentecost) activities.** These were held at volunteer centers, including the dancing on wheels club, battered women shelter and more.

**Cauliflower project.** A project in which volunteer Bank employees participate, cooking meals for families in need for the Shavuot Holiday. Part of the employees together with additional volunteers from around the country cooked food at the Holon Community Center, another part brought food cooked at home and the remaining volunteers helped in the distribution of the food to homes of the families.

**Bar Mitzvah ceremony at the Western Wall organized by "Connected to Life" Association for children with special needs.**

The ceremony was participated by representatives of the Jerusalem region branches and of the regional administration. The volunteers came to cheer the kids celebrating and assisting them with putting on the Tefilin.

**Voluntary activity of TeleBank employees in coordination with the "Latet" Association.** Distribution of food parcels to families in need living in the southern part of Tel Aviv. The activity will take place on a monthly basis.

**Termination of the "A Different Lesson" project.** Members of the senior forum participated in this project, lecturing on banking matters and the realization of dreams to children of the Sokolov School in Bat-Yam. The end of project event was held at the visitors' center of the Bank where the children were led on a tour, meeting several of the forum members who came to greet them on termination of the project and award them with relevant certificates.

## ARTS

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**Guided tours.** Some 17 guided tours of the Bank's art collection were conducted in the second quarter, in which some 400 visitors participated.

**Lending of art works.** The work of art "Tzabar" by the artist Asim Abu Shaqra has been lent by the Bank for three years to the permanent exhibition of Israeli art at the Israel museum in Jerusalem.

## SPONSORSHIPS

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Sponsorships were granted during the second quarter of 2016 to activities in various fields. Especially noted are the following sponsorships:

### SPONSORSHIPS REGARDING THE CULTURAL AND ARTS FIELDS

**Theatrenetto Festival.** Sponsorship of solo appearances festival held during the Passover Holiday at the Jewish-Arab Theatre in Jaffa and Acre.

**Docaviv.** Sponsorship for a gala evening held in May, which included the premier screening of the film about the cellist "Yo Yo Ma and the Silk Road Ensemble".

**"Olympiade".** Sponsorship for an event for new immigrants from France held at the end of June at the Saker Gardens in Jerusalem, in the presence of the President of the State of Israel.

### SPONSORSHIPS RELATING TO EDUCATION

**The third Kinneret Convention for child protection.** Sponsorship for the convention of the Kinneret Institute for Bullying Studies among children, held in April at the Kinneret College on the Sea of Galilee.

**Moona Space for Change.** Sponsorship for the annual drone competition for youth living in peripheral areas, held in May as part of a support and operating an educational programs in the development field.

### SPONSORSHIPS REGARDING COMMUNITY AND ACTIVITIES IN AID OF DISADVANTAGED POPULATION

**Israel Friends of Beit Hatfutsot Association.** Sponsorship for "Galabiah", a fundraising event of the Israel Friends of Beit Hatfutsot Association, held at the beginning of May at the Carrasso family home in Bnei Tzion, in aid of families living in peripheral areas, new immigrants and servicemen.

**Herzliyah Rotary Club.** Sponsorship for the pre-premier screening of the film "Florence Foster Jenkins", held at the end of May, raising funds for vacation of children suffering from cancer and the welfare of school children in Herzliyah.



**"Life's Door".** Sponsorship for the annual fundraising event of the Life's Door Association, which supports persons facing sickness, loss and old age and promotes the subject of quality of life during therapy and treatment processes. The event was held at the end of June at the cultural center at Airport City.

## **SPONSORSHIPS REGARDING THE ENVIRONMENT, SCIENCE AND BUSINESS**

**Manufacturers Association.** Sponsorship for study courses with the participation of experts from the Bank, held throughout the year at the College for Industrial Management.

**Jerusalem business convention.** Sponsorship for the business convention held at the end of June at the Cinema City compound in Jerusalem in cooperation with the Jerusalem Region Administration.

## **"HERZELILINBLUM" – BANKING AND TEL AVIV NOSTALGIA MUSEUM**

**Tours.** About 5,300 visitors toured the Museum during the second quarter, within the framework of some 200 tours and seminars conducted in the Museum for children, students servicemen and adults.

**Various events at the Museum.** Among the different events held at the Museum in the second quarter, and in addition to events held for Bank customers and guided tours for different companies and entities, the following events may be mentioned:

**Independence Day events.** For the first time, the Herzelilinblum Museum has been included in the festivities organized by the City Council of Tel Aviv, together with other central institutions in the city, as: the Hagana Museum, the Independence Museum, the Great Synagogue and more. During the Day, special guided tours were held at the Museum in a nostalgic-Zionist spirit, which included excerpts of films and other content of the Museum. The number of visitors taking part in the event reached 2000 persons, most of whom families.

**Tel Aviv White Night.** Within the framework of the White Night events in Tel Aviv, the Museum was also open to visitors between the hours of 17:00 and midnight. Some 400 visitors toured the Museum sampling the story of the House and its activities.

**Event of the Israel Finance Institute,** which included a tour of the Museum and lectures on the subjects of credit risk assessment and CoCo bonds.

**Taasiyeda Tours.** In cooperation with the Education Society of the Manufacturers Association, active among students and youth. The educational and creative activity exposes the students to the importance and advisability of integration into the various industrial sectors. The Museum tours expose the students to sensible consumption, influences and consideration in the purchase of products, and providing basic concepts in the banking-economic field.

**A tour in English for the "Metrowest" Group.** This is a group of nineteen years old from all over the United States, who came to Israel for two weeks as part of a project, the main subject thereof is Israel as a startup nation, concurrently with acquainting the participants with the roots of Tel Aviv, the first Hebrew city, which turned from a garden suburb, into a financial center out of a private initiative of a group of families from Jaffa. The tour of the Museum emphasized the breakthrough innovation of the Discount Bank, through the "Heroics" exhibition and reference to Israeli inventions in the fields of medical, security etc..

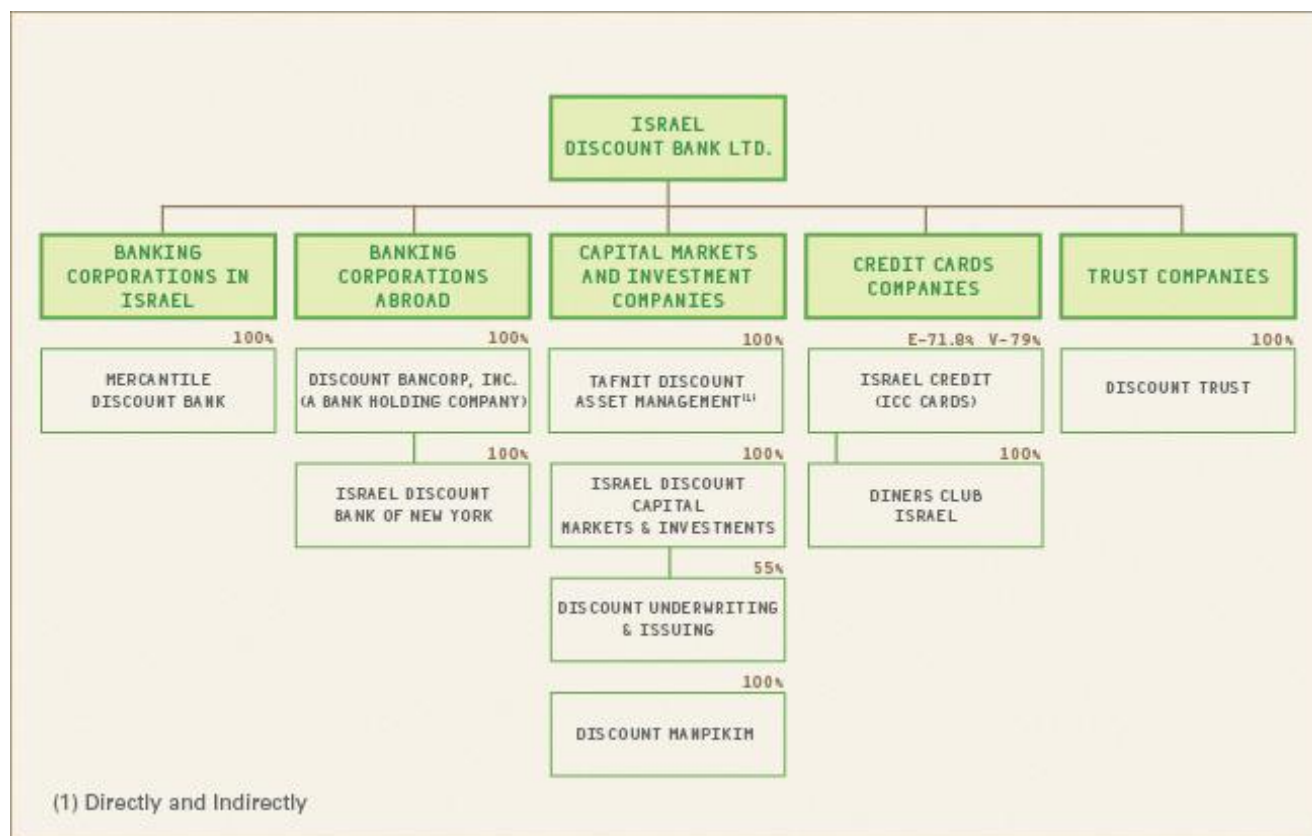
**"Heroics – Breaking through for 80 years" Catalogue.** This Catalogue of the Heroics exhibition was published in an elaborate and limited edition, in honor of the eightieth Anniversary of the establishment of Discount Bank, depicting eighty years of breakthrough activity. The Catalogue has been distributed to the Bank's units as well as to partners of the exhibition.

## "MAALA" RATING FOR 2016

In June 2016, "Maala" published its rating for 2015. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). The rating is based on criteria detailed in six central areas of corporate responsibility: environmental protection, business ethics, human rights and work environment, involvement with the community, corporate governance and social environmental reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

## ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

### DISCOUNT GROUP STRUCTURE



## FIXED ASSETS AND INSTALLATIONS

**The construction of an operating Complex.** During the first quarter, the Bank promoted processes designed to realize the outline for the foundation of the Discount compound, which at the first stage is expected to accommodate together all operating units of the Bank, including the establishment of a new central computer plant for the Bank.

This move is expected to bring about in the future savings in current expenses and improvement of the work environment.

An agreement was signed on June 27, 2016, with the Municipality of Rishon Le'Tzion for the purchase of 21 Acres in the "Thousand Site" in Rishon Le-Tzion, in consideration for NIS 105 million. The Group plans to construct on the site a center to which will be moved different units of Discount Bank, MDB and ICC, including the computer installations.

Construction of the project and the transfer of the various units shall be made in stages.

The above information is considered forward-looking information, as defined in the Securities Act, 1968, based on preliminary planning by the Discount Group and on information presently at hand. It is emphasized that at this stage, there is no certainty as to the dates for construction of the center, progress of construction and construction and transfer costs.

**Gain on sale of assets.** In the first half of 2016, a gain from the sale of properties of approx. NIS 60 million was recorded, net of the tax effect.

## ACCESSIBILITY FOR HANDICAPPED PERSONS

The Bank has completed the accessibility modifications of the Bank's assets within the framework of the third stage for accessibility (both as regards accessibility to service and accessibility to buildings, infrastructure and the environment) the due date thereof is June 22, 2016, so that the ratio of accessible assets is 65% of the Bank's assets, in accordance with the requirements of the law.

At present, the Bank is in the midst of the process of accessibility of the last group of assets, within the framework of the fourth stage for accessibility, the due date of which is November 1, 2017. At the end of this stage, accessibility would be completed at 100% of the Bank's properties.

Moreover, the Bank is in the advanced stages for completion of the modifications for accessibility to the Internet website.

For additional details, see the 2015 Annual Report (pp. 398-399).

## THE HUMAN CAPITAL

### LABOR RELATIONS

**Labor dispute.** On July 23, 2015 a notice was delivered to the Bank from the Union of Clerks, Administrative Public Service Employees ("Histadrut HAMAOF") on the deceleration of a labor dispute at Discount Bank, in accordance with Section 5a and 5b of the Settlement of Labor Disputes Law, 1957 and resulting regulations. In accordance with the notice, a strike in the Bank could have been called as from August 9, 2015, and thereafter. On December 14, 2015, the representative committee of employees introduced various sanctions, which include the alternating shutdown of units as well as disallowing of employee mobility. On February 25, 2016, the sanctions were lifted.

**Negotiations with the employee representative committee.** The Bank is negotiating with the employees representative committee regarding changes in the Labor Charter extended in 2011 for five years, until December 31, 2016, for the purpose of extending it for one additional year and regarding the payroll agreement for the coming years.

**Labor agreement at ICC.** A special collective labor agreement was signed on June 26, 2016, by ICC, the New Federation of Labor and the National Committee of ICC employees. This agreement amends and continues earlier agreements dated December 21, 2011 and March 23, 2015.

The agreement shall be in effect until December 31, 2018. Until that date, the parties are committed to maintain industrial peace with respect to the issues and terms as determined in the agreement. Upon the agreement taking effect, the labor dispute declared on April 17, 2016, was terminated.

In the framework of the agreement, among other things, a selective annual salary increase was determined at an average rate of 3.1% for each of the years 2016, 2017 and 2018. Also determined is an annual seniority addition of 0.5% payable to employees of a "tenured employee" status, as defined in the agreement.

The agreement also grants salary increases to employees earning a low wage, additions to the rates of deposits for pensions as well as other benefits. On the other hand, changes were made in the arrangements prevailing prior to the signature of the agreement regarding jubilee awards.

According to the agreement, workers of ICC will be eligible as a special monetary bonus in respect of the sale of Visa Europe to Visa Inc. The cost of the bonus, in the amount of NIS 20 million, has been recognized as an expense in the second quarter of 2016.

## MISCELLANEOUS

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**Changes in the employees' representative committee.** Elections to the employees' representative committee were held in March 2016, resulting in a change in the composition of the national committee, with seven new members (out of 21 committee members) replacing existing members. Also, the committee members have elected from among themselves, a new chairman to head the national committee.

**Increasing the provisions for pension insurance in the market.** An Expansion Order was signed on May 23, 2016, regarding the increase in provisions for pension insurance in the market, as regularized in the general collective labor agreement of April 3, 2016, signed by the Presidium of Business Organizations and the New General Federation of Labor. The Expansion Order states, inter alia, that as from the effective date, each employee shall be insured in respect of his determined wage, at rate of no less than the following rates: starting with July 1, 2016, the contribution for the provident component will be 5.75% by the employee and 6.25% by the employer; starting with January 1, 2017, the contribution for the provident component will be 6.0% by the employee and 6.5% by the employer.

## ORGANIZATIONAL CULTURE

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The Bank introduced in the second quarter an internal website "The Managers", which contains tools and content for managers at the Bank, which assist them in the integration of cross-organizational processes stemming from the Bank's strategic plan, as well as enrichment and development content.

## IMPROVEMENT OF SERVICE

**Quality of service index.** The experience of the multi-channeled customer is being measured in 2016 by means of a quality of service index, which reflects the satisfaction of the customer in the following dimensions: availability, professionalism, personal relations and recommendation of the Bank. For additional details, see the 2015 Annual Report (p. 416).

**Internal services survey.** The survey was published in February 2016, for the second time at Discount Bank, in a cross-organization format. The survey had measured 399 services provided by the various divisions. The rate of respondents reached 90%.

Following the survey, feedback and improvement procedures have been instituted, similarly to those taken in 2015 (see the 2015 Annual Report, p. 416).

A date for the next survey was fixed for the last quarter of 2016.

## REMUNERATION POLICY IN A BANKING CORPORATION

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**Draft amendment of Proper Conduct of Banking Business Directive No. 301A regarding the remuneration policy of a banking corporation.** The Supervisor of Banks published on May 18, 2016, a draft amendment to the Directive ("The Draft"), as well as a draft FAQ file for the implementation of the Directive. The draft was issued following the passing of the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of the expense in respect of exceptional remuneration), 2016 (see above) and its expected implications on the amount of remuneration paid by banking corporations and its composition. The said draft proposes to reduce the definition of "a key-employee" stated in the Directive, and to exclude from the definition a manager reporting directly to the CEO, and/or an employee, who is not an officer according to the Companies Act, whose remuneration fulfills the conditions stated in the Directive. Furthermore, it is proposed to introduce the possibility of granting an officer a discretionary award of not more than three monthly salaries. The draft also proposes to withdraw the duty to grant 50% of the variable remuneration by way of shares or share based instruments and to raise the upper limit in respect of which there is a duty to spread the variable remuneration, so that the duty to defer a variable remuneration shall not apply if the variable remuneration does not exceed 40% of the fixed remuneration, and this on condition that the remuneration does not deviate from the upper limit determined in the Remuneration Act.

The Supervisor of Banks issued on July 14, 2016, an additional draft amendment of Proper Conduct of Banking Business Directive No. 301A, which includes an additional amendment changing the definition of "fixed remuneration", so that shares that at date of granting thereof are blocked for realization may be recognized as a fixed remuneration.

The Bank is preparing for the revision of its remuneration policy so as to modify it to the provisions of the Remuneration Act (see "Legislation and Supervision" below) and of the draft Directive.

The remuneration policy and remuneration agreements signed with the Chairman of the Board and with the President & CEO, will be brought for approval of the General Meeting of Shareholders modified to the Remuneration Act (see "Legislation and Supervision" hereunder).

## RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

### Details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies

| Rating given by                               | Subject of rating                          | Rating | Rating horizon | Date of rating/<br>ratification of rating |
|---|--|--------|----------------|---|
| <b>Discount Bank</b>                          |  |        |                |   |
| Standard & Poor's, Ma'alot                    | Issuer rating (including deposits)         | il AA  | Stable         | December 23, 2015                         |
|   | Subordinate capital notes <sup>(1)</sup>   | il AA- | Stable         | December 23, 2015                         |
|   | Upper tier 2 capital (Series 1)            | il A+  | Stable         | December 23, 2015                         |
|   | Hybrid tier 1 capital (Series "A")         | il A-  | Stable         | December 23, 2015                         |
| Midroog                                       | Long-term deposits                         | Aa2    | Positive       | October 12, 2015                          |
|   | Short-term deposits                        | P-1    |                | October 12, 2015                          |
|   | Subordinate capital notes <sup>(1)</sup>   | Aa3    | Positive       | October 12, 2015                          |
|   | Subordinate capital notes (tier 1 capital) | A-2    | Positive       | October 12, 2015                          |
| The international rating agency S&P           | Issuer rating Short-term                   | A-2    | Stable         | December 21, 2015                         |
|   | Issuer rating Long-term                    | BBB    | Stable         | December 21, 2015                         |
| The international rating agency Moody's       | Long-term foreign currency deposits        | Baa1   | Stable         | June 1, 2016                              |
|   | Counterparties Risk Assessments            | A-3    |                | June 1, 2016                              |
| <b>Mercantile Discount Bank<sup>(2)</sup></b> |  |        |                |   |
| Standard & Poor's, Ma'alot                    | Issuer rating (including deposits)         | il AA  | Stable         | December 23, 2015                         |
|   | Subordinate capital notes                  | il AA- | Stable         | December 23, 2015                         |

Footnotes:

(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.

(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

### The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

| Rating given by                         | Foreign currency - long-term | Rating horizon |
|---|------------------------------|----------------|
| The international rating agency Moody's | A-1                          | Stable         |
| The international rating agency S&P     | A+                           | Stable         |
| The international rating agency Fitch   | A                            | Positive       |

\* The data are taken from the website of the Accountant General at the Ministry of Finance.

## ACTIVITY OF THE GROUP ACCORDING TO REGULATORY SEGMENTS OF OPERATION – ADDITIONAL DETAILS

### HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

#### DEVELOPMENTS IN THE SEGMENT

**Branches.** At the end of the first half, the Bank has 127 branches in operation. 3 branches (The Drorim Branch at the Lev HaSharon Regional Council, the Hamasger Branch in Tel Aviv and the Oron Branch in Petah Tikva) were closed in the second quarter.

#### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

For details regarding legislation amendments, draft Bills and Regulations and private Bills applying to the segment or which might have implications thereon, see the 2015 Annual Report (pp. 488-491) and under "Legislation and Supervision" below.

#### MORTGAGE ACTIVITY

At the present time, the Bank operates 65 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

The Bank operates two channels in the process of approving a mortgage, as follows:

- A direct approach channel to the mortgage loan officer at the branch;
- A direct channel - call center specializing in mortgage loans, which provides service in main areas, as follows:
  - Sales center dealing with approaches by customers seeking a new loan. Based on predetermined criteria, the center is authorized to grant to the customer a preliminary approval for a loan, with the process being continued at a personal meeting with the customer at the branch.
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch.
  - Response to existing customer questions regarding ongoing loans.

#### **Developments in the mortgage market**

|   | For the six months ended<br>June 30 |        | Change<br>in % |
|---|-------------------------------------|--------|----------------|
|   | 2016                                | 2015   |                |
|   | in NIS millions                     |        |                |
| Total housing loans granted by the banks, excluding internal recycling of loans | 30,517                              | 32,246 | (5.4)          |
| Loans from State funds  | 48                                  | 51     | (5.9)          |

**Details regarding new loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit**

|                         | For the six months ended June 30, |              | For the year ended December 31, |              |
|-------------------------|-----------------------------------|--------------|---------------------------------|--------------|
|                         | 2016                              | 2015         | 2015                            |              |
|                         | In NIS millions                   | Change in %  | In NIS millions                 |              |
| From bank funds(1)      | 3,305                             | 2,083        | 58.7                            | 4,557        |
| From Treasury funds (2) | 2                                 | 3            | -                               | 5            |
| Total of new loans      | 3,307                             | 2,086        | 58.5                            | 4,562        |
| Recycled loans          | 305                               | 685          | (55.5)                          | 1,230        |
| <b>Total</b>            | <b>3,612</b>                      | <b>2,771</b> | <b>30</b>                       | <b>5,792</b> |

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 68 million in the first six months of 2016, compared to NIS 90 million in the first six months of 2015 and NIS 144 million in 2015

(2) Including standing loans in the amount of NIS 0.9 million in the first six months of 2016, compared to NIS 2 in the first six months of 2015 and NIS 2 million in 2015.

**Legislative restrictions and regulations**

**Circular of the Ministry of Finance in the matter of changes in the rules applying to assistance to qualified persons who do not own an apartment.** A circular was published on April 20, 2016, which reduces the minimum number of points entitling qualified persons to financial assistance in purchasing an apartment and which defines the rate of interest payable on the entitling housing loan. The circular changed the mechanism for fixing the interest rate so that it would be determined according to the average rate of interest on housing credit in the CPI linked segment, minus a margin of 0.5%. The letter takes effect on May 15, 2016.

**Directive of the Ministry of Housing and of the Ministry of Finance regarding assistance for the purchase of an apartment within the new housing purchase plan.** A Directive was published on April 14, 2016, which defines the mechanism assisting qualified persons in the purchase of a single apartment, within the framework of a plan for price tenders for the purchasers. A qualified person, who is successful in the tender, would be entitled to apply to a banking corporation for a loan assisting him in purchasing the apartment from the contractor. The Directive imposes a ban on the sale of the apartment within five years from the date of taking possession thereof.

In this respect, the Bank of Israel issued on May 1, 2016, an amendment to Proper Conduct of Banking Business Directive No. 329, which allows the granting of a housing loan under the said plan for the purchaser, at a maximum financing ratio derived from the market value of the apartment based on an appraisal instead of its price in the purchase agreement. The purchaser will have to provide from his own resources an amount of at least NIS 100 thousand towards the purchase price.

For details regarding guidelines and instructions of the Supervisor of Banks designed to restrain the mortgage market, see the 2015 Annual Report (p. 469).

**PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS**

**Measures regarding risk management.** As part of cross-border risk management, procedures have been formed at the Bank to regularize the cross-border activity with foreign resident customers from various countries, based on information provided by an independent consulting company as to the laws in effect in these countries.

Among other things, the said procedures define the services that may be granted to the said customers, the service layouts authorized to serve them and the manner of providing the service, such procedures being subject to changes and revisions, including revisions in accordance with changes to the information received regarding the law applying in these countries and in additional countries to which the procedures may relate in the future, and in accordance with decisions that the Bank may take in the matter.



## SMALL AND MINUTE BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

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### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

For details regarding legislation amendments, draft Bills and Regulations and private Bills applying to the segment or which might have implications thereon, see the 2015 Annual Report (pp. 488–491) and under "Legislation and Supervision" below.

## MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

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### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

For details regarding legislation amendments, draft Bills and Regulations and private Bills applying to the segment or which might have implications thereon, see the 2015 Annual Report (pp. 488–491) and under "Legislation and Supervision" below.

## LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

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### REACHING TARGETS AND BUSINESS STRATEGY – FIRST HALF OF 2016

The Bank has acted in accordance with the work plan for the corporate banking segment, while focusing on increasing risk adjusted return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations and adjust the credit margins to the risk level, reducing the concentration risk (to borrower groups and individual borrowers).

### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

As of June 30, 2016, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of June 30, 2016, there were no deviations from the limitations on "related persons".

In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

**Amendment to the Proper Conduct of Banking Business Directive No. 313 in the matter of "Restrictions on indebtedness of a single borrower and of a group of borrowers".** Proper Conduct of Banking Business Directive No. 313 was amended on June 9, 2015, so that the definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. It has been prescribed as a transitional instruction, that the calculation of capital shall include the Tier 2 capital as of December 31, 2015, which shall be reduced as from January 1, 2016, by one-twelfth in each quarter, until its elimination on December 31, 2018. The limitation on indebtedness of a banking group of borrowers was reduced from 25% to 15% of the capital. The amendment takes effect as from January 1, 2016.

## **DEVELOPMENTS IN THE BUSINESS SECTOR IN THE FIRST HALF OF 2016**

In the first quarter of 2016 the product expanded on an annual rate of 1.7%, compared with 3.5% in the last quarter of 2015. The business product grew by 0.8% in the first quarter of 2016, following a growth of 3.3% in the previous quarter.

Following are the factors which effected the development of the business product in the first quarter:

- A rise of 5.0% in private consumption, compared to 8.0% in the last quarter of 2015. The slowdown stems from an acute slowdown in the consumption of durable and semi-durable goods, while current consumption recorded accelerated growth from 2% to 5.5%.
- A slowdown in investments in fixed assets (excluding ships and aircraft) to an annual rate of approx. 5%, with a 9% rise in housing construction investments and a 4% rise in investment in economic sectors (excluding ships and aircraft);
- A decline of 5.3% in exports of goods and services (excluding diamonds and startup companies), following a rise of 1% in the previous quarter. A sharp decline (8%) was recorded in industrial exports (excluding diamonds). On the other hand, a growth was recorded in the export of services (approx. 3%, excluding startup companies);
- A slowdown in public consumption (excluding defense imports) to an annualized rate of 2.6%, compared to 10% in the last quarter of 2015. The slowdown stems from a decline in defense consumption, while the civilian public consumption recorded acceleration.

The import of goods and services (excluding defense imports, ships and aircraft and diamonds) recorded a contraction of approx. 3%, compared to a growth of approx. 23% in the last quarter, with a slowdown in the import of goods and a steep rise in services.

The official growth data for the corporate banking segment in the second quarter of the year are not available at date of publication of this report. However, the integrated index of the Bank of Israel, comprising a preliminary indicator of the business product, rose in the second quarter by an annualized rate of 1%. The rise in the Index in the second quarter stemmed mostly from a growth in imports, in the export of services, in the turnover of the retail trading sectors and from the growth in the rate of available employment positions in the market. On the other hand, the Index was negatively affected by a steep decline in the export of goods, a reduction in turnover of the services sectors and by the decline in industrial production.

The growth rate of the integrated index indicates the continuing moderate growth of the business product also in the second quarter of the year.

## **DEVELOPMENTS IN THE DEBT OF THE BUSINESS SECTOR**

The debt of the business sector (excluding banks and insurance companies) amounted at the end of May 2016<sup>2</sup> to NIS 830 billion, a rise of 1.8% compared with the end of December 2015 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

The increase in the debt derives from an increase in debt to banks (2.2%), a sharp increase in the debt of the business sector to households and corporations, a moderate increase in the debt to institutional bodies (1.5%) and a decline in the debt to foreign residents (-0.4%). The increase in the debt to institutional bodies stemmed from the increase in private loans, while bonds recorded stability. As a result of the said trends, the weight of banks in the total debt of the corporate banking segment increased by a moderate rate from 48.7% at the end of 2015 to 48.9% at the end of May 2016.

During the first half, the business sector, excluding banks and insurance companies, raised funds through the issuance of bonds to the tune of approx. NIS 16.2 billion (via the Tel Aviv Stock Exchange and by nonmarketable bonds). This is a high rate relatively to the average of 2015, being NIS 2.7 billion per month, compared to NIS 2.5 billion, respectively.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of June 2016 stood at 146 basis points, compared with 156 basis points at the end of 2015.

<sup>2</sup> The most updated data available at the time of submitting the report to print.

## **DEVELOPMENTS IN THE SEGMENT'S MARKETS**

Following are development directions in the principal economic sectors:

- Industrial sector – The second quarter saw a minor growth in industrial production and the import data recorded a growth. On the other hand, industrial exports recorded a decline for the second consecutive quarter, stemming mostly from the electronic components, pharmaceuticals and chemical industries. The Purchase Managers' Index remained at the level of around 50 points, indicating stagnation in this sector;
- Diamonds – The economic weakness recorded in 2015, due to a decline in global demand, is still noticed. Export of polished diamonds slightly contracted in the quarter, remaining at a level lower than that of the corresponding period last year. Most indices indicate a slowdown in the rate of decline, though these recovery signs do not serve as indicators for future trends;
- The agricultural sector – Agricultural exports suffer from a continuous weakness in the last two years. The last quarter saw a growth in production and a halt in the trend, though it still remains far from recovery. Russia, being a traditional export target for the industry, suffers from a deep economic crisis and does not show signs of recovery;
- The commerce sector – The sector is mainly affected by local consumption reflecting a mixed trend. Private consumption has grown, while retail consumption stagnates. Total credit card transactions continued to grow also in this quarter, and price levels remained low;
- Real estate sector – for details, see below under "Construction and real estate activity".

## **ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS**

The Bank of Israel revised downward the growth forecast for 2016, which stands now at 2.6%. The growth forecast for 2017 has also been revised downward to 2.9%. This revision reflects the low growth in the first quarter, which was mainly affected by the weakness in exports with a moderating effect of good employment data and the low interest environment on the other hand. Private consumption is expected to remain solid also in the second half of 2016, with a growth in investments in fixed assets and an expected transition of exports from contraction to growth.

According to the Bank of Israel forecasts, the interest rate is expected to remain at its present low level of 0.1%, due to a reduction in the inflationary environment. The expected date for announcement of a rise in the interest rate has been deferred to the end of 2017.

For details regarding developments expected in the real estate and infrastructure sector, see below under "Construction and real estate activity".

For details regarding the "Corporate Banking Segment", see the 2015 Annual Report (pp. 57-59, 431-437).

## **CONSTRUCTION AND REAL ESTATE ACTIVITY**

### **Developments in markets of the activity**

**Residential property.** The trend of growth in demand for residential units is continuing alongside a limited supply, which lead to the continuing increase in housing prices and to a growth in the volume of mortgages. Low credit costs and the lack of investment options also support the high demand. The Government plan for housing tenders using the "Price for the purchaser" method, focuses on the reduction in apartments prices, mostly for those purchasing their first apartment, the aim being that in the long-run, the price reduction would penetrate the rest of the market (purchasers improving their housing and investors).

**Income producing commercial real estate.** The commercial real estate market retained stability in occupancy rates and a slight rise in rental prices. The development of commercial properties accelerated in recent years. The planned building addition exceeds buying power and might lead to saturation, particularly in the Beer Sheva, Haifa and bay area and in Tel Aviv.

**Income producing office premises.** The office premises market maintains stability in occupancy rate and records a moderate increase in rental fees.

### **Legislative and regulatory limitations and special constraints applying to the activity**

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector stood at a rate of 18.34% as of June 30, 2016, compared with 19.3% at the end of 2015.

**Draft Directive regarding industry concentration.** On July 25, 2016, the Supervisor of Banks published a draft amendment of Proper Conduct of Banking Business Directive No. 315, in the matter of "additional allowance for doubtful debts". The Supervisor noted that this draft amendment is introduced on background of transactions entered into recently by banking corporations for the purchase of credit hedge against exposure arising from bank guarantees to housing purchasers, granted under the Sales Act (Residential units) (Insuring investments of housing purchasers), 1974 (hereinafter: "Sales guarantee"), and in view of the recognition of qualification of such guarantees for the purpose of credit risk mitigation, as stated in Proper Conduct of Banking Business Directive No. 203. According to the draft, a clarification would be added, according to which, 70% of the sales guarantees in respect of which the banking corporation had purchased credit hedge that is qualified for credit reduction purposes, should be classified to the segment of operation of the provider of the hedge.

## **INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS**

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### **CONDENSED DESCRIPTION OF THE CHARACTERISTICS OF THE SEGMENT**

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (through mutual funds and ETN's).

The long-term investment management field has grown in recent years, among other things, due to the compulsory pension savings reform and to the positives returns on the capital market.

### **AREAS OF OPERATION**

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, mutual funds and ETN managers. The institutional bodies are active in the following fields: deposits, securities trading, foreign securities, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

### **COMPETITION**

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks.

A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years. Moreover, the trend is increasing of trading on overseas markets through foreign bodies (which provide also securities custodian services) as an alternative to Israeli banks.

## **A COMPETITIVE PROCESS**

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In this process offerors are required to quote their commission pricelist in addition to a review of the scope of activity of the offeror, risk management, the manner in which the offeror operates in the various fields of operation, trading systems, research department services, etc.

## **OPERATING SERVICES**

At the present time, the Bank does not provide operating services to institutional bodies.

## **FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS**

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### **NON-FINANCIAL COMPANIES**

#### **LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SUB-SEGMENT**

As of June 30, 2016, the amount of the Bank's investment in non-financial corporations was less than the restricted amount pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details see the 2015 Annual Report (pp. 444-447).

#### **Investment of the Group in private investment funds, venture capital funds and corporations**

DCMI is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of June 30, 2016, the net investments of DCMI in these corporations and funds amounted to approx. US\$233.6 million. As of June 30, 2016, the maximum future commitment of DCMI for investment in these corporations and funds amounted to approx. US\$119.3 million.

In addition to the investment in funds through DCMI, Mercantile Discount Bank is committed to invest in four active venture capital funds. The balance of the investment amounts and of investment commitments is in immaterial amounts.

#### **Developments in the sub-segment**

**Realizations.** In the first half of 2016, DCMI has recognized gains in the total amount of NIS 12.3 million in respect of withdrawals from the funds, compared with NIS 43.8 million in the corresponding period last year.

## **INTERNATIONAL OPERATIONS SEGMENT – ADDITIONAL DETAILS**

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### **LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS OVERSEAS**

**Exposure restriction with regard to overseas extensions.** In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On June 30, 2016, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 17.47% of total risk assets, as compared with 18.37% on December 31, 2015. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group.

The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

## CREDIT CARD OPERATIONS

### GENERAL INFORMATION ON THE OPERATIONS

Following are quantitative data regarding the activity of ICC:

|                   | June 30, 2016             |                        | December 31, 2015         |                        |
|-------------------|---------------------------|------------------------|---------------------------|------------------------|
|                   | The total number of cards | Of which: active cards | The total number of cards | Of which: active cards |
|                   | in thousands              |                        |                           |                        |
| Bank cards        | 1,496                     | 1,283                  | 1,454                     | 1,247                  |
| Off-banking cards | 887                       | 627                    | 876                       | 616                    |
| <b>Total</b>      | <b>2,383</b>              | <b>1,910</b>           | <b>2,330</b>              | <b>1,863</b>           |

| Transactions turnover |  |  |  |  |                                      |
|-----------------------|--|--|--|--|--------------------------------------|
|                       | For the three months ended June 30, 2016 | For the three months ended June 30, 2015 | For the six months ended June 30, 2016 | For the six months ended June 30, 2015 | For the year ended December 31, 2015 |
|                       | in NIS millions                          |  |  |  |                                      |
| Bank cards            | 13,718                                   | 12,610                                   | 26,904                                 | 25,016                                 | 51,835                               |
| Off-banking cards     | 4,016                                    | 3,609                                    | 7,806                                  | 7,096                                  | 14,803                               |
| <b>Total</b>          | <b>17,734</b>                            | <b>16,219</b>                            | <b>34,710</b>                          | <b>32,112</b>                          | <b>66,638</b>                        |

Notes:

- (1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
- (2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
- (3) "Valid card" - A valid credit card which is not blocked.
- (4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
- (5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

### REGULATIONS, LEGISLATION AND ARRANGEMENTS

#### PROPER CONDUCT OF BANKING BUSINESS DIRECTIVES IN THE MATTER OF REGULATION REGARDING THE CLEARING FIELD

On May 1, 2016, the Supervisor of Banks published Proper Conduct of Banking Business Directive No. 472 in the matter of clearing agents and clearing of debit card transactions. The Directive is designed to regulate, in a designated manner, the operations of the financial bodies that would obtain a clearing license from the Governor of the Bank of Israel. The Directive outlines the main principles for clearing operations of debit card transactions. In accordance with the explanatory notes, the Directive is based, inter alia, on regulation in practice abroad in this field, and is intended to remove some of the regulatory requirements hitherto imposed on those operating in the clearing field.

For additional information regarding regulations, legislation and arrangements, see the 2015 Annual Report (pp.\_\_\_\_).

## DEVELOPMENTS IN THE OPERATIONS

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**Acquisition of VISA Europe.** For additional information regarding the acquisition of VISA Europe including notices from Visa regarding changes in the arrangements with it, see Note 17 C.

**The signing of an agreement with Club 365.** On May 28, 2016, ICC, Hamashbir 365 holdings Ltd. and Club 365 Finance Ltd. entered into an agreement revising the previous Club agreement signed between them on June 28, 2012, and revising the agreement signed between the company and Bitan Wines Company Ltd. dated August 27, 2014, as well as agreements between the Bitan Wines group and Club 365 regarding the joining of Bitan Wines group with the 365 coalition. The agreement revises the commercial terms of the Club agreement, including that determining the scope of the consideration that the company will pay Club 365 in respect of use of the Club charge cards. The agreement is in effect until December 31, 2023, and will be automatically renewed for additional periods of five years each, unless one of the parties informs the other in writing, at least twelve month prior to the end of the period, of its intention not to renew the period of the agreement.

## THE DIGITAL DEPARTMENT

### ESTABLISHMENT OF THE DIGITAL DEPARTMENT

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In May 2016, it was decided to establish a new subdivision at Discount Bank – the Digital Department. The establishment of the department reflects the recognition of changes and trends that have characterized the banking sector in recent years, led by – growth in the share and importance of the direct channels in connecting the Bank with its customers; the need for documentation and effective management of a range of bank-customer interfaces and interactions; and the benefits, both for the customers and for the Bank, that arise from simplifying and streamlining services and core products, such as current accounts and payment methods.

The new Digital Department will take the lead solutions concept in three principal content spheres – direct channels, the CRM and customer concept and current account.

The department will be responsible for setting the course for each content sphere, for shaping the customer's future journeys, for upgrading and adapting the bankers' work environment to the changing reality and for the assimilation of innovative tools, services and solutions.

The department was established as part of the Technologies and Operations Division at the Bank, steaming from the realization of the central role that technology takes in the ability to facilitate initiatives in the digital field and with the aim of shortening, to the greatest extent possible, the time it takes to provide advanced digital services to the Bank's customers.

### DIRECT CHANNELS

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. Within the framework of this activity, the following products and services were introduced during the second quarter of 2016:

**Upgraded "Business+" app.** An update to the existing version of the "Business +" app - the new version supports all the existing "Business +" services on the Internet (based on an Internet site infrastructure adapted for cellular browsing).

**Changes in the transactions site.** The new transactions site for private customers continues to change and offer customers a unique and advanced user experience.



**New app for private customers.** The new app introduces an innovative and advanced standard of user experience. Uniquely and exclusively for Discount customers, the app enables fingerprint identification ("Discount Touch"), which is now not just for iPhone users, but is also – for the first time in Israel – available also for Android users and provides customers with insights on the state of their accounts. The app was launched at the beginning of July 2016.

The app includes also the opportunity to join the "Brief Glance" service where, basic account information, without identification, regarding current account balance, last three transactions, total credit card charge and the total value of the securities portfolio.

Customers benefit from an advanced experience of receiving information and conducting a broad range of transactions from the banking content platforms, moving between main topics with just a screen swipe, and a fast access to transaction execution and a main menu available from any screen.

Moreover, after opening the app for the first time and completing the full identification process, subsequent use of the app is enabled just by password identification.

## MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST HALF OF 2016

### DEVELOPMENTS IN THE GLOBAL ECONOMY

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**General.** The first half of 2016 was marked by an environment of economic and political uncertainty, and by a moderate global growth. Private consumption continued to lead the growth in the developed countries, while industry and exports continued to demonstrate weakness.

In the second quarter of the year, the U.S. economy grew at an annualized rate of only 1.2%. This, following a growth of 0.8% in the first quarter. The growth in the Eurozone, in the second quarter slowed down to an annualized rate of 1.2%, following a growth of 2% in the first quarter. Concurrently, in the first half of the year, the unemployment rate continued to decline to a level of 4.9% in the U.S. and 10.2% in the Eurozone, compared to 5.1% and 10.6%, respectively, in the second half of 2015 (a six monthly average). Concerns regarding a severe slowdown in growth in China turned out to be exaggerated, and in the first two quarters of 2016, the Chinese economy grew by 6.7% (in each of the quarters).

In the first half of 2016, most of the developed countries were characterized by a low inflationary environment. This, following a low global inflation in 2015. Of the developed countries, the U.S. stands out with a certain increase in the inflationary environment. At the end of the first half, the annual inflation rate in the U.S. and in the Eurozone amounted to 1% and 0.1%, respectively. The moderate growth alongside negligible inflation supported the continuation of the expansionary monetary policy (with even further expansion) in most of the developed economies around the world and also in a part of the developing countries. In the U.S., despite the increase in the inflationary environment, the increase of the interest process moderated and the interest rate remained unchanged throughout the first half.

In the Eurozone, the ECB lowered the monetary interest rate, the interest rate on liquidity surplus, enlarged its plan for the purchase of bonds and announced a plan for the granting of loans to commercial banks at a negative interest rate. In China, the authorities announced the continuation of an expansionary monetary and fiscal policy, with the aim of encouraging growth. In Japan, a negative interest rate on deposits was announced for the first time and a significant fiscal expansion is being planned.

**Financial markets.** In continuation of the high volatility recorded in the first quarter, the global trading in equities was also marked by high volatility in the second quarter. This, on the background of the uncertainty created by the Referendum in Britain regarding the exit from the European Union. The decision of the British people to leave the Union jolted the financial markets, though the markets corrected the prices upwards a few days after the publication of the Referendum results.



#### The changes in selected share indices recorded during the first half of the years 2016 and 2015

| Index                 | Change in the first half of |       |
|-----------------------|-----------------------------|-------|
|                       | 2016                        | 2015  |
| 500 S&P               | 2.7%                        | 0.2%  |
| DAX                   | (9.9%)                      | 11.6% |
| MSCI Emerging Markets | 5.0%                        | 1.7%  |

In the United States, the high volatility recorded on the equities markets and the uncertainty created by the British Referendum, led to a steep reduction in returns on government bonds. At the end of the second quarter, the returns of bonds for ten years dropped to a low of 1.44% from a level of 1.77% at the beginning of the quarter. Furthermore, the return graph of German government bonds dropped to a negative area nearly for its full length, so that at the end of the second quarter ten year bonds were traded at a level of -0.13%.

#### The returns on government bonds

| Return on bonds for 10 years | June 30,<br>2016 | December<br>31, 2015 |
|------------------------------|------------------|----------------------|
| U.S.A.                       | 1.5%             | 2.3%                 |
| Germany                      | (0.13%)          | 0.63%                |

The US dollar strengthened in the second quarter, mainly due to the increasing uncertainty stemming from the results of the British Referendum. This, following the weakness of the US dollar against most of the currencies during the first quarter of the year. In total for the first half of the year, a mixed trend was recorded.

#### Changes in the U.S. dollar against selected currencies

| Exchange rate | Change in the first half of |        |
|---------------|-----------------------------|--------|
|               | 2016                        | 2015   |
| EUR           | (1.9%)                      | 7.8%   |
| JPY           | (16.5%)                     | 1.9%   |
| GBP           | 10.0%                       | (0.9%) |

Commodity prices continued in the second quarter their upward trend, which started in the first quarter. This, as a correction following the significant reduction in prices during the second half of 2015.

#### Changes in selected commodities indexes

|                              | Change in the first half of |        |
|------------------------------|-----------------------------|--------|
|                              | 2016                        | 2015   |
| The commodities index - GSCI | 20.0%                       | 1.6%   |
| The oil price (BRENT)        | 33.3%                       | 10.9%  |
| The oil price (WTI)          | 32.1%                       | 11.6%  |
| Gold                         | 24.6%                       | (1.0%) |

## MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

### GENERAL

The domestic product grew in the first quarter of the year by 1.7% (annualized rate), compared to 3.5% in the last quarter of 2015. A slowdown was recorded in all applications, except for investments in fixed assets. Private consumption and investments in fixed assets (excluding ships and aircraft) recorded a relatively fast growth, at the rate of approx. 5% (each). Public consumption (excluding defense imports) recorded a slowdown to 2.6%, and exports (excluding diamonds and startup companies) recorded a decline of 5.3%. Civilian imports (excluding diamonds, ships and aircraft) contracted by 3%, following a sharp growth in the previous quarter. Official growth data for the second quarter of the year are not yet available at date of publication of this report. However, current data indicate the continued moderate growth, led by private consumption.

The rate of unemployment continues to decline, amounting in the first half of the year to 5% (compared to 5.2% in the second half of 2015 and 5.3% in the corresponding period last year). Concurrently, the rate of participation remained stable at 64.2%, with a significant growth in the number of employed persons.

### DEVELOPMENTS IN ECONOMIC SECTORS

Industrial production contracted in the period from January to May by a rate of 0.6%, compared with the first half of 2015 (average against average). This, on the background of the contraction in the hi-tech industries and growth in the traditional technology industries. Furthermore, the total turnover of wholesale and retail trading increased in the period from January to May 2016 by 3.6%, compared with the first half of 2015 (average against average). This, on the background of a growth in similar rates in the turnover of wholesale and retail trading.

### DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY

In the first half of the year, direct investments in Israel by foreign residents (through banks) amounted to US\$5.9 billion, of which US\$3.6 billion in the first quarter. Financial investments of foreign residents in the Tel Aviv Stock Exchange amounted in the reviewed period to US\$574 million, compared with US\$327 million in the corresponding period last year. The said growth stemmed from investment in government bonds and short-term loans (MAKAM) in an amount of US\$317 million, compared to sales of US\$700 million in the first half of 2015. On the other hand, the growth was offset by a relatively low investment in equities in an amount of US\$350 million, compared with investments of US\$1 billion in the corresponding period last year.

Financial investments abroad by Israeli residents amounted in the first half to US\$373 million, of which US\$619 million were invested in the first quarter of the year, compared to realizations of US\$ 256 million in the second quarter. In total for the first half, an investment of US\$640 million was recorded in bonds, with a realization of equities in the amount of US\$266 million.

#### The changes recorded in investments of the Israeli economy abroad

| Investments in Israel by foreign residents | 2016          | 2015    | Change  |
|--|---------------|---------|---------|
|  | US\$ millions |         |         |
| Total direct investments through banks     | 5,894         | 4,641   | 27.0%   |
| Total financial investments                | 1,272         | (1,216) |         |
| Of which: Government bonds and MAKAM       | 317           | (700)   |         |
| Shares                                     | 353           | 1,000   | (64.7%) |
| Investments abroad by Israeli residents    | 2014          | 2013    | Change  |
|  | US\$ millions |         |         |
| Total direct investments                   | 82            | 1,194   | (93.1%) |
| Total financial investments                | 373           | 8,461   | (95.6%) |

## DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

For the past two years, the rate of inflation in Israel remains below the lower limit of the targeted inflation range. In June 2016, the annual inflation was at a negative rate of 0.8%. The negative inflationary environment is the result of the global negligible inflation rate, stemming from surplus supply and the reduction in commodity prices, the strong shekel and administrative reduction in prices. During the first half of the year the shekel strengthened by 1.4% as against the US dollar, and weakened by 0.9% against the Euro. In terms of the effective nominal exchange rate, the shekel maintained a relative stability, weakening against the US dollar by a moderate rate of 0.4%.

## FISCAL AND MONETARY POLICY

**Fiscal policy.** The cumulative annual deficit at the end of the first half of 2016 amounted to 2.1% of the GDP. The Government's budgetary deficit during the first half of the year amounted to NIS 3.4 billion, compared with a deficit of NIS 3.8 billion in the corresponding period last year.

**Monetary policy.** The monetary policy of the Bank of Israel in the reviewed period continued to be very expansionary, with the interest rate remaining at a low of 0.1%. This due to the low inflationary environment, which marked the recent period, being far from the lower limit of the targeted inflation rate, the strong shekel and the moderate growth. In addition, during the first half of the year, the Bank of Israel intervened in currency trading, purchasing US dollars in excess of the planned amount according to the natural gas plan, in order to support the shekel, in view of the weakness in the export of goods from Israel.

## CAPITAL MARKET

The reviewed period was characterized by high volatility in the Israeli capital market, primarily due to global developments. In conclusion for the period, the main indexes recorded drops in prices due, inter alia, to weakness in dominant sectors, such as medicines and gas.

### The changes recorded in selected share indices during the first half of 2015 and 2016

| Index               | Change in the first half of |       |
|---------------------|-----------------------------|-------|
|                     | 2016                        | 2015  |
| General share index | 2.2%                        | 11.8% |
| TA 25               | (8.6%)                      | 12.5% |
| TA 100              | (7.9%)                      | 10.0% |
| TA banks            | (2.0%)                      | 15.1% |
| Blutech 50          | (2.6%)                      | 12.0% |
| Real-estate 15      | 12.8%                       | 9.2%  |

Trading in government bonds in Israel was characterized by volatility, and in conclusion for the second quarter, by a relatively moderate decline in returns in relation to the global trend. During the course of the quarter, the 9-year shekel return (Shekel Government bonds 825) fell by 20 basis points and was traded at the end of the quarter at a level of 1.6%. The aforesaid trend reflects the global trend of moving into safe assets, against the background of global economic uncertainty. In corporate bonds the trading derived from the trading trend in government bonds, as well as from considerable volatility in margins, in light of the markets' concerns.

**The changes recorded in selected bond indices during the first half of 2015 and 2016**

| Index                    | Change in the first half of |      |
|--------------------------|-----------------------------|------|
|                          | 2016                        | 2015 |
| General bonds            | 2.7%                        | 0.6% |
| General Government bonds | 2.7%                        | 0.4% |
| Shekel Government bonds  | 2.2%                        | 0.7% |
| Linked Government bonds  | 3.4%                        | -    |
| General Corporate bonds  | 2.7%                        | 0.9% |
| Linked Corporate bonds   | 3.0%                        | 0.5% |
| Shekel Tel-Bond          | 1.6%                        | 0.8% |

In the first half of 2016, capital raised through the issuance of corporate bonds by Israeli companies totaled NIS 29.8 billion, compared with NIS 51.6 billion in 2015. Of the above sum, NIS 12.6 billion was issued by banks, compared with NIS 18.3 billion in 2015.

**THE ASSET PORTFOLIO HELD BY THE PUBLIC**

The value of financial assets held by the public grew during the first half of 2016 by 0.8%, amounting at the end of June to NIS 3.3 trillion. The said increase stemmed from the increase in the bonds component. On the other hand, the equities component recorded a reduction in Israel and abroad.

**The distribution of the asset portfolio held by the public**

|                                | June 30, |              |
|--------------------------------|----------|--------------|
|                                | 2016     | Dec 31, 2015 |
| Shares                         | 21.5%    | 22.9%        |
| Non-linked assets              | 35.6%    | 35.1%        |
| CPI linked assets              | 30.2%    | 29.3%        |
| Foreign currency linked assets | 12.8%    | 12.6%        |

**PRINCIPAL ECONOMIC DEVELOPMENTS IN JULY AND AUGUST 2016<sup>3</sup>**

The current macro-economic data for the third quarter of the year indicate a moderate growth rate, led by private consumption. Moreover, the global inflationary environment continued to be moderate. The macro-economic data in the U.S. stand out positively in comparison with the other developed countries, on the background of improved employment data and retail sales. The central banks in Britain and in Australia have lowered the interest rate, in Japan the government announced a fiscal incentive plan, and in the Eurozone expectations increased for an additional monetary expansion.

In Israel, the monetary policy continued to be expansionary, with the interest rate for the month of August remaining unchanged at a level of 0.1%, and in July, the Bank of Israel purchased dollars on the open market.

The shekel strengthened against the central currencies by 0.4%, 0.9% and by 3.2% against the US dollar, the Euro and the Pound Sterling, respectively.

Since the beginning of June, the shekel gained ground at the rate of 0.7% in relation to the effective currency array.

An increase was recorded in the price of equities on the Tel Aviv Stock Exchange, where in total for the period the TA 100 Index rose, and the TA 25 Index by 15.4% and 9.6%, respectively. With respect to Israeli government bonds, a moderate rise in returns was recorded all along the graph. This, in accordance with the global trend, and as amendment of the steep reduction in returns experienced at the end of June.

<sup>3</sup> All data relate to the period from July 1, 2015 and until August 8, 2016.

## LEGISLATION AND SUPERVISION

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

### LEGISLATION FOLLOWING THE RECOMMENDATIONS OF THE COMMITTEE FOR INCREASING COMPETITION IN BANKING AND FINANCIAL SERVICES ("STRUM COMMITTEE")

#### **STRENGTHENING COMPETITION AND REDUCING CONCENTRATION AND CONFLICTS OF INTEREST IN THE ISRAELI BANKING INDUSTRY, (LEGISLATION AMENDMENTS) BILL, 2016**

On July 6, 2016, the Committee for Strengthening Competition in Banking and Financial Services ("the Strum Committee") published its central recommendations. The Minister of Finance adopted the recommendations and published a memorandum bill intended to implement part of the recommendations. On July 31, the Government and the Ministers' Committee on Legislation Matters approved the Bill in the matter, the text of which differs from the text of the Bill Memorandum in various matters. On August 2, 2016, the Bill in the matter was published on the Official Gazette. The text of the published Bill differs from the text of the Bill approved by the Ministers' Committee on Legislation Matters. On August 4, 2016, the Knesset passed the first reading of the Bill, and passed it to the Reforms Committee of the Knesset to be prepared for its second and third readings.

The text of the Bill does not include instructions relating to the change in structure of ownership of Automatic Banking Services Ltd. ("ABS"), which appeared in the Bill Memorandum.

Following are the principal issues of the Bill:

- 1.1 The addition of two areas of operation in which a bank may engage: the sale of computer and operating services which are mainly in use by the bank and the leasing of properties mainly serving the bank, on condition that an approval was granted by the Supervisor of Banks. This instruction is intended to enable banks and financial bodies having a narrow range of operation to purchase computer and operating services and rent properties used for this purpose from other banks, thus reducing operating costs and entry barriers into banking operations.
- 1.2 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent. According to the Bill, these restriction take effect at the end of three years from date of publication of the Act, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from date of publication of the Act.
- 1.3 In the period from the end of four years since publication of the Act and until six years from date of publication of the Act, it is proposed to authorize the Minister of Finance to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that the said restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration , inter alia, the state of competition existing in the credit market.

- 1.4 It is proposed to introduce various instructions applying to banking corporations, with the aim of ensuring increased competition in the granting of financial services and facilitate the operation of financial bodies, which are not banking corporations, in providing such services, as detailed below:
- 1.4.1 It is proposed to determine that a banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.
  - 1.4.2 It is proposed to prohibit a banking corporation from denying, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation, the granting of financial services, including the granting of credit, to customers of the banking corporation.
  - 1.4.3 It is proposed to determine that a banking corporation shall not deny an operating body the making use of information reaching the operating body while conducting the issue operation of debit cards, for the purpose of granting services as an issuer or for the purpose of granting credit, this on condition that the customer gave his consent in advance to the said use. It is proposed that the type of information to which the instruction shall apply, will be determined by the Minister of Finance, with the consent of the Minister of Justice.
  - 1.4.4 It is proposed that a banking corporation would transmit, at the request of the customer, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.
  - 1.4.5 It is proposed to determine that where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement. It is proposed in this respect that the distribution of a credit card comprises each of the following actions, in accordance with the distribution agreement between the banking corporation and the issuer: (1) presentation to the customer of details regarding the issuer who is engaged with the banking corporation in a distribution agreement and regarding the credit card being issued by them; (2) providing details of the customer to a certain issuer, at the request of the customer; and (3) providing the customer with the credit card issued to him by the issuer engaged with the banking corporation in a distribution agreement, at the branches of the banking corporation at the customer's request.
  - 1.4.6 It is proposed to determine that a banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal, and that the Supervisor of Banks would be entitled to determine instructions regarding terms which would be considered as unreasonable terms.
  - 1.4.7 It is proposed that at the request of a customer of a banking corporation, the banking corporation shall present information regarding transactions made by means of a debit card of the customer and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. Furthermore, where the banking corporation is the issuer, the manner of presentation of the information on transactions made by debit cards issued by another issuer, would be identical to the manner of presentation of the information on transactions made by a debit card issued by the banking corporation.
  - 1.4.8 It is proposed to authorize the Supervisor of Banks to publish data regarding rates of interest payable in practice to customers for shekel deposits as well as regarding the rates of interest charged in practice to customers in respect of the granting of credit.
  - 1.4.9 It is proposed that instructions 1.4.1 to 1.4.3 above, would take effect on date of publication of the Act, while instructions 1.4.4 to 1.4.8 above would take effect at the end of one year since date of publication of the Act.
- 1.5 It is proposed that during a transitional period beginning on date of publication of the Act and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation, restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

- 1.5.1 It is proposed that from the end of one year from date of publication of the Act and until the end of the transitional period the bank will conduct the issue operation of debit cards issued by it also by means of the debit card company, one at least (which is a corporation which on the eve of the effective date was engaged in the issue operation of debit cards and in the clearing of transactions made by debit cards). A bank having a Wide-Ranging Activity, or any other bank which is not itself engaged in issue operations, shall be required to act during the said period by means of two debit card companies, which at least one of which is not under its control and it does not hold means of control therein.
- 1.5.2 It is proposed that from the end of two years from date of publication of the Act and until the end of the transitional period, a bank which issues debit cards and which at the eve of publication of the Act had controlled or held means of control in a debit card company, shall not conduct through one debit card company, issue operations of over 40% of the total new debit cards that the bank issues to its customers. It is proposed to authorize the Minister of Finance, with the consent of the Governor of the Bank of Israel, during the transitional period, to determine in respect of the proposed instruction a rate lower or higher than 40%, if the matter is found justifiable for the promotion of competition in the credit field. It is proposed to prohibit debit card companies to refuse on unreasonable grounds, engagement with a bank for the purpose of issue operations for debit cards issued by the bank.
- 1.6 It is proposed that during the transitional period, the following instructions will apply to a bank having a Wide-Ranging Activity:
  - 1.6.1 The distribution of income earned on issue operations of debit cards and on the activity of customers using the debit cards, between a bank having a Wide-Ranging Activity and the debit card company, will be in accordance with the provisions of the engagement agreement between them in effect on June 3, 2015, date of appointment of the Strum Committee, and this unless the Supervisor of Banks instructs otherwise.
  - 1.6.2 A bank having a Wide-Ranging Activity, which is issuing debit cards, shall be entitled to approach a customer with respect to the renewal of a debit card only during a period of 45 days prior to the date of expiration of the credit card agreement.
  - 1.6.3 From the end of two years from the effective date and until the end of the transitional period, the total credit facilities in each year, in respect of credit cards issued to customers of a bank having a Wide-Ranging Activity, shall not exceed 50% of the total credit facilities in effect in 2015, in respect of credit cards held by customers of the bank.
- 1.7 It is proposed to enable a debit card company, during the transitional period, to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank. This in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer. It is proposed to enable the customer to request that no use should be made by the debit card company of the said information in his respect.
- 1.8 It is proposed to establish an advisory committee, having the following duties: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; recommend measures for the increase of competition in the credit market; to recommend extension of the restrictions to additional banking corporations as regards issue operations and clearing, and as regards control of or the holding of means of control in a corporation engaged in issuance or clearing.

## **SUPERVISION OVER FINANCIAL SERVICES ACT (REGULARIZED FINANCIAL SERVICES), 2016**

The Act was published on August 1, 2016, the essence of which being the regularization of the financial services field – service regarding a financial asset or the granting of credit, and the activity of providers of financial services (hereinafter: "provider of financial services"). Banking corporations are not considered providers of financial services in term of the Act. The principal issues of the Act are: establishing a supervisor over providers of financial services, and instructions regarding the supervision over their operations; definition of the licensing duty and the terms for the granting of a license to provide financial services; restrictions on the management of a business of a provider of financial services; different instructions regarding the operation of a provider of financial services; permit for the control or for the holding of means of control of a provider of financial services. In principle, the Act enters into effect on June 1, 2017, and with respect to entities engaged in providing service for financial assets – on June 1, 2018.



### **SUPERVISION OVER FINANCIAL SERVICES ACT (OFF-INSTITUTIONAL FINANCIAL SERVICES PROVIDERS) (AMENDMENT) BILL MEMORANDUM 2016, IN THE MATTER OF THE ISSUANCE OF CHARGE CARDS BY PROVIDERS OF FINANCIAL SERVICES**

The memorandum was issued on July 13, 2016, and its principal objective is to regulate the conduct of off-institutional providers of financial services that are seeking to issue debit cards ("the Issuers") and to remove the barriers that currently stand in their way, so as to create a suitable and adequate infrastructure for the Issuers' operations and to ensure it functions correctly. The memorandum proposes to define the licensing obligation of an Issuer, the terms for granting a license and various provisions regarding the activity of an Issuer.

### **SUPERVISION OVER FINANCIAL SERVICES BILL MEMORANDUM – CREDIT AND DEPOSIT SERVICES**

The Bill, distributed on July 13, 2016, deals with the regulation of the "minute banking" field, which includes: (a) individuals as well as associations and public benefit companies, being not-for-profit organizations, which accept monetary deposits and grant non-interest bearing loans; (b) cooperative societies granting their members monetary deposit and credit services (credit societies), alongside additional services being basic bank services (hereinafter, all together – "providers of credit and deposit services"). The main points of the memorandum: prescribing that the Supervisor of Regulated Financial Services will also be the regulator entrusted with the regulation and supervision that will apply to providers of credit and deposit services; defining the controlled credit and deposit services; defining the licensing obligation and terms for granting a license to provide credit and deposit services, including limits on the annual balance sheet amount of providers of credit and deposit services; business management restrictions for providers of credit and deposit services; various provisions pertaining to the activity of a credit and deposit services provider; and, a permit for the control or holding of means of control of a credit and deposit services provider.

### **BANK OF ISRAEL ACT (AMENDMENT) (THE COMMITTEE FOR FINANCIAL STABILITY) BILL MEMORANDUM**

The Bill Memorandum issued on July 18, 2016, proposes to establish a financial stability committee with the aim of coordinating the different financial supervisory authorities – the Supervision of Banks, the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance, the Supervisor of Providers of Off-Institutional Financial Services providers at the Ministry of Finance, the Supervisor of Payment Systems and the Israeli Securities Authority, as well as between them and the Bank of Israel and the Ministry of Finance, and to bring about a coordination between them, in order to support the stability of the financial system and the regularity of its operation. The duty of the committee, among other things, would be: to promote exchange of information among the various financial supervisory authorities and between them and the Ministry of Finance and the Bank of Israel, in order to identify, assess and monitor systematic risks; to initiate examinations by the financial supervisory authorities with respect to risks and exposures in order to identify and assess systematic risks; to promote coordination and cooperation between the supervisory authorities in the analysis, evaluation, development and operation of tools and methods for the prevention of systematic risks and the reduction thereof. The Chairman of the Committee would be the Governor of the Bank of Israel and his deputy would be the Accountant General at the Ministry of Finance.

### **DRAFT OUTLINE FOR ESTABLISHING A NEW BANK IN ISRAEL**

Among the measures that the Banking Supervision Department is promoting to bolster competition in the Israeli banking system and to support the changes outlined in the initiative of the Minister of Finance and the Strum Committee, the Banking Supervision Department published on June 14, 2016 the draft outline that focuses on two main topics: an outline for granting a bank license to the credit card companies and the required conditions and exemptions for establishing a completely new bank. The outline details the measures for removing the obstacles that had until now prevented the establishment of a new bank in Israel.



## PROHIBITION OF MONEY LAUNDERING AND PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

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### **PROHIBITION OF MONEY LAUNDERING ACT (AMENDMENT NO. 14), 2016**

An amendment to the Prohibition of Money Laundering Act was published on the Official Gazette on April 7, 2016. The amendment states that serious tax offences would be recognized as predicate offences according to the Prohibition of Money Laundering Act, and the sanctions under this Act shall apply to them, including punishment of a more serious degree (up to ten years imprisonment) and the possibility of confiscation of assets. The amendment to the Act is intended to combat illegal capital, intensify tax collection and reduce tax evasion, and will apply to serious tax offenses according to various legislation, such as: the Income Tax Ordinance, Land Taxation Act, etc. It is determined, among other things, that Section 220 of the Income Tax Ordinance shall be considered a predicate offence in the case of tax evasion in an amount exceeding NIS 1,000,000 within a period of one year, or in an amount exceeding NIS 2,500,000 within a period of four years. These tax offences are characterized by a mental basis of a special intention to evade tax payments. Furthermore, the amendment expands the investigative powers of the Tax Authorities and permits the Authority to obtain information from the data base of the Prohibition of Money Laundering and the Finance of Terror Authority. The amendment takes effect six months from date of publication.

The Supervisor of Banks published on July 11, 2016, a draft circular in the matter of preparations for compliance risk management, in view of tax offences being declared as a predicate offence. The draft circular is intended to assist banking corporations in the management of the said risk through emphasizing issues, which might be more relevant to tax offenses. Thus, inter alia, the draft notes that following the said amendment of the Act, managements of banks have to examine the changes required in bank policies in the matter of prohibition of money laundering and the finance of terror, emphasizing the issue of "knowing the customer"; update the risk assessment of the bank; examine the relevant modes of operation for the identification of accounts in which funds are deposited which might originate from tax evasion or unreported income to ensure that the updates to the policy and risk assessments, as well as the relevant activity patterns, are included in the Bank's procedures, and to also update the controls and the Bank's training programs, placing emphasis on the changes and updates that have been made in the procedures as a result of the amendment to the law.

### **THE FIGHT AGAINST TERROR ACT, 2016**

The Act was published on the Official Gazette on June 23, 2016. The Act's aim is to determine instructions in the criminal law and administrative law fields, including special enforcement powers for the purpose of combating terror.

The Act regularizes and widens the authority of Government agencies in everything relating to the combat of terror and declaration of terror organizations. The matters being dealt with by the Act are, inter alia, enlargement of the term "terror organization", determination of a uniform arrangement for the declaration of terror organizations replacing the existing declaration mechanisms, stricter punishment, formation of a new category for "terror offenses" – offences uniquely relating to the terror field and which relate to the activities of terror organizations, a new regulation regarding forfeiture and seizure of assets related to a criminal offense, and extending the authority of the police regarding the prevention of terror activity. The Act takes effect on November 1, 2016.

## ANTITRUST

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### **EXEMPTION FROM A RESTRICTIVE ARRANGEMENT IN RESPECT OF THE HOLDING AND JOINT ACTIVITY WITHIN THE FRAMEWORK OF ABS AND BCC**

On March 20, 2016, the Antitrust Commissioner granted BCC an exemption for a period of eighteen months. The exemption was granted under terms substantially similar to those determined in the previous exemption decisions.

The Antitrust Commissioner rendered a decision on April 21, 2016, in the matter of the amendment of the exemption terms regarding the ABS restrictive arrangement, which permits ABS a total modification of its terminals to the EMV standard for the benefit of users. For additional details, see the 2015 Annual Report (p. 481)

## LEGISLATION AND REGULATION AMENDMENTS RELATING TO THE CAPITAL MARKET

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**Pension consulting.** On April 10, 2016, a revised circular regarding the reasoning document was published, in which the effective date of the circular was deferred to January 1, 2017; also published was an additional draft to the circular regarding the joining of a pension fund or a provident fund, in which, among other things, the proposed effective date is deferred to April 1, 2017. On July 19, 2016, an amendment was published of the circular regarding the transfer of funds between provident funds, according to which the process of the transfer of funds has been revised, and so were the forms used for effecting such transfers. The effective date was fixed for January 1, 2017. For additional details, see the 2015 Annual Report (pp. 458-459).

**Changes in the structure of the Stock Exchange.** The Securities Bill (Amendment No. 60) (Change in structure of the Stock Exchange), 2016, was published on the Official Gazette on July 13, 2016. The Bill is intended to enable the change in the structure of ownership of the Stock Exchange, held at present mostly by the banks, while turning it into a profit earning corporation. In order to diversify the composition of the shareholders of the Stock Exchange and to encourage the present Stock Exchange members to sell their holdings in the Stock Exchange it has been suggested that their holdings in excess of 5% will become dormant and shall not confer any rights. It has further been determined that when the present shareholders of the Stock Exchange would sell their holdings, they would be required to pay over to the Stock Exchange an amount equal to the full difference between the value of the shares they own, based on the equity capital of the Stock Exchange, and the sale price. This amount would serve the Stock Exchange to reduce commissions and for technological development, but may not be used for the payment of dividends. For additional details, see the 2015 Annual Report (p. 460).

**Regulating the provision of investment consulting and portfolio management services through the use of technological means.** On April 20, 2016, the Israel Securities Authority published for public comment the draft "Instruction to license holders regarding the granting of services through the use of technological means". According to this draft, the public would be able to obtain online services (engage in an agreement for investment consulting or for portfolio management through use of the computer, complete online the clarification of needs questionnaire, and obtain investment recommendations through the computer). In addition, the draft regulates signal services and social trading. The draft details the means which a license holder providing online services has to apply in order to comply with fiduciary duties and care.

**Foreign funds.** On May 5, 2016, the Mutual Investment Trust Regulations (Distribution fees) (Amendment), 2016, were published on the Official Gazette. The Regulations apply as from September 30, 2016. for additional details see the 2015 Annual Report (p. 460).

## VARIOUS LEGISLATION MATTERS

### **REMUNERATION OF OFFICERS OF FINANCIAL CORPORATIONS ACT, 2016**

The Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016, (hereinafter: "the Act") was published on April 12, 2016. The Act applies to financial corporations, among which are banking corporations, and it prescribes instructions applying to remuneration payable to officers and employees of banking corporations.

The Act states a special mechanism for approval of an engagement for the payment of remuneration to a senior officer or employee of a banking corporation, which exceeds the amount of NIS 2.5 million per annum, this instead of the amount of NIS 3.5 million stated in the original Bill. An engagement for the payment of remuneration in an amount exceeding NIS 2.5 million per annum ("maximum remuneration"), requires approval of the Remuneration Committee, the Board of Directors with a special majority vote of independent Directors, and the General Meeting of Shareholders with a special majority vote.

The Act states that the ratio between the forecasted expense in respect of the remuneration, based on a full-time position, and the expense in respect of the lowest remuneration paid by the bank to an employee, will not exceed 35. An engagement regarding remuneration, which is not approved in accordance with the provisions of the Act, shall not be valid both in respect of the financial corporation and in respect of the senior officer or the employee.

Moreover, the Act provides for a restriction on the deductibility tax wise of a remuneration, the amount of which exceeds NIS 2.5 million, according to which, the maximum amount allowed for deduction tax wise of a payroll expense exceeding NIS 2.5 million per annum, would be NIS 2.5 million, net of an expense in respect of the granting of shares or the right to receive shares, and after deducting the payroll expense in excess of NIS 2.5 million.

The transitional instructions determine that the provisions of the Act shall apply to engagements for remuneration approved as from date of publication of the Act and thereafter. Moreover, it is determined that the provisions of the Act shall apply to engagements for remuneration approved prior to the date of publication of the Act, and which requires approval within six months from date of publication of the Act.

The provisions regarding the tax deduction shall apply to an existing engagement within six months from date of publication of the Act, and to an engagement approved after date of publication of the Act, as from January 1, 2017.

For details regarding increasing the special fund in respect of exceptional retirement cases, see Note 1 D to the condensed financial statements.

For details regarding the draft amendment of Proper Conduct of Banking Business Directive No. 301A, following the passing of the Act, see above "Remuneration policy in a banking corporation".

The remuneration policy and remuneration agreements signed with the Chairman of the Board and with the President & CEO, will be brought for approval of the General Meeting of Shareholders modified to the Remuneration Act.

On June 1, 2016, the Union of Banks filed a motion with the High Court of Justice, requesting the Court to declare that the provisions of the Act do not impair the rights of employees with respect to seniority, accumulated until the date on which the Act took effect, or which are computed based on this seniority. In addition, a motion was filed for an Interim Order, according to which, employees and officers of banking corporations, who would inform of their resignation from office at these corporations within 45 days from date of ruling in the motion or from date of cancellation of the Interim Order, would not lose their existing entitlement to the full rights due to them following the termination of employer/employee relations or termination of office, had these been terminated at date of filing of the motion. On July 11, 2016, the Court issued an Interim Order, as requested.

It is noted, that on June 6, 2016, the Insurance Companies Union also filed a motion with the High Court of Justice with respect to this Act. The Court, with the consent of the parties, agreed to the request of the Insurance Companies Union to combine the hearing of its motion with that of the Union of Banks.

In the response to the motion, filed on behalf of the State, the State informed, among other things, that it supports the outline for the implementation of the transitional instructions proposed by the Deputy Attorney General to the Government, according to which, the maximum compensation amount stated in the Act will not apply to payments in respect of severance compensation, in respect of which accounting provisions had been made prior to the effective date of the Act. This instruction will apply only to rights regarding the termination of employment, based on the number of employment years prior to the Act, and to engagements approved prior to the publication of the Act.

On July 27, 2016, the Court issued an Order Nisi, instructing the Respondents to refer to arguments relating to the application of the Act to remuneration in respect of the length of period of employment (seniority), and to the motion for the cancellation of the ratio limitation and the tax burden mechanism determined by the Act. The Respondents are required to submit their response by August 29, 2016. Moreover, it has been decided to move the case for hearing before a wider panel of seven judges. It has been further decided that the Interim Order that had been granted, shall remain in effect until another decision is given.

### **INSOLVENCY AND ECONOMIC RECOVERY BILL, 2016**

On March 9, 2016, the Bill passed its first reading and was passed on for preparation for the second and third readings. For additional details regarding this Bill, see the 2015 Annual Report (p. 486).

### **THE USE OF CASH BILL, 2016**

The Act was published on the Official Gazette on April 12, 2016. The Act takes effect 30 months from date of publication thereof. For additional details regarding this Act, see the 2015 Annual Report (p. 487). Following the publication of the Act, draft Credit Data Regulations, 2016, has been published, with the aim of complementing the provisions of the Act and outlining supporting instructions regarding specific arrangements, which are not regulated by the Act itself.

For the purpose of applying the law, the Bank of Israel is working to establish a central database for sharing credit data.

On June 21, 2016, the Bank of Israel published a provisional instruction detailing the data held by the banks and the credit card companies that it is planned to be reported by them to the database and kept there. The circular that accompanied the provisional instruction details milestones for its implementation. The Bank is making preparations for the directives' implementation.

### **THE BANKING ACT BILL (LICENSING) (AMENDMENT NO. 22) (CLOSURE OF BRANCHES), 2016**

On August 4, 2016, the bill passed its second and third readings in the Knesset. The principles of the bill: authorizing the Supervisor of Banks to approve, object or set conditions in relation to a request from a banking corporation to close a branch. It is also prescribed that, if a decision is made consenting to the closure of a branch, the banking corporation shall announce this to its customers in writing and shall only be entitled to close the branch after 60 days have elapsed from the date of giving such notice to the customers.

**Draft Proper Conduct of Banking Business Directive – Closure of bank branches and reduction in teller services.** On August 8, 2016, the Supervisor of Banks published this draft Directive, which is intended to regularize the process of the closing down of branches and the reduction in teller services, and the transition to providing service by digital and online means in the banking industry, in order to ensure response to the needs of the different customers. Within the framework of the Directive, banking corporations are required: to form a designated policy in writing in the matter of branches and the discontinuation of teller services by the banking corporation; to perform a preliminary review prior to the decision to close down a branch or to discontinue teller services in the branch, within the framework of which it is required to consider, inter alia, the potential impact on customers of a branch planned for closure and the alternatives available to them; to form an orderly plan with respect to the continuing the granting of the different banking services in the case where a banking corporation plans to close down a branch or discontinue a teller position. As part of the plan, it is required to verify attention to the needs of the different customers; verify that the mix of notes and coins offered to customers will not change following the closure; to ensure human assistance and guidance to customers upon transition to the use of digital means in the branch; to verify the appropriateness of the digital service stations and control over their maintenance; to provide

customers with a prior notice of sixty days regarding the closure of a branch or discontinuation of teller services. The Directive states the means of delivery and contents of such notice. Such a notice would be delivered only after a reasoned application in writing had been submitted to the Supervisor of Banks, and the latter has approved the closure of the branch. The Directive states the cases in which it would not apply.

### **THE OBLIGATION TO PROVIDE A WARNING WHEN ADVERTISING AND MARKETING CREDIT (LEGISLATIVE AMENDMENTS) BILL, 2015**

On July 4, 2016, the bill passed its first reading in the Knesset. The main provisions of the bill: determination that a banking corporation and a financing party shall not advertise and shall not undertake any other marketing measure, which includes an advertisement or marketing tool that encourages the taking of a loan by the customer, unless this is accompanied by a warning that explains the risks associated with taking the loan should the borrower fail to repay the loan.

### **AMENDMENT TO THE BANKING RULES (CUSTOMER SERVICE) (COMMISSIONS) (AMENDMENT), 2016**

The amendment to the Banking Rules was published on the Official Gazette on July 10, 2016, and took effect on August 2, 2016, excluding the instruction regarding the initiated attachment to the tracks service, as discussed below.

Principal points of the Amendment -

- Imposing a duty on a banking corporation for the initiated attachment to the basic tracks service of a senior citizen customer or of a handicapped customer who had complied with the terms stated in the amendment. The first attachment is to be effected until September 1, 2016, and thereafter, until March 1, of each financial year. The Bank is preparing accordingly.
- An exemption from commission was determined in respect of providing, at the customer's request, one copy of notices under any law, delivered by electronic communication during a period of six months prior to the date of closure of the bank account.
- Classification of commission in respect of the production of standard reports, as a controlled commission.
- It is determined that a commission in an amount no exceeding a teller transaction commission, will be charged in each year in respect the collection of each of the first four changes of a monthly repayment date of a housing loan.

### **BANKING ORDER (CUSTOMER SERVICE) (CONTROL OVER STANDARD REPORTING SERVICE AT CUSTOMER'S REQUEST), 2016**

The Order was published on the Official Gazette on July 19, 2016 and became effective on August 1, 2016. The Order states that the service of producing standard reports at customer's request will be a controlled service, and the maximum fee chargeable for this service is NIS 15 per report.

### **DEBT EXECUTION ACT (AMENDMENT NO. 50), 2016**

An amendment to the Act was published on April 7, 2016, which states that irrespective of that stated in any law or agreement, where a motion for the execution of a verdict or bill has been submitted after the passing of one year from date on which it could have been submitted for execution to the Debt Execution Office, there will be added to the amount stated in the verdict or in the bill only linkage differences and interest according to the Interest and Linkage Award Act, as from the date on which the motion could have been submitted and until the date on which it has been submitted for execution. Furthermore, The Debt Execution Registrar has the authority to determine a longer period based on recorded reasons.

### **A SAVINGS FUND FOR EVERY CHILD UP TO THE AGE OF 18 PLAN**

As part of the economic plan for the years 2015-2016, the Knesset approved a raise in child allowances. Within this context, it was resolved to establish the plan. On June 21, 2016, the Ministry of Finance published a memorandum, National Insurance Regulations (Long-Term Children's Savings), 2016 that sets forth the principles of the plan. Following are the principal issues of the plan: commencing from January 1, 2017, the National Insurance Institute ("NII") will deposit NIS 50 a month for each child in a specially designated savings account in the child's name; upon the child reaching the age of 18, the NII will deposit a further amount of NIS 500; if the child opts to defer the date for withdrawing the savings until the age of 21, the NII will deposit a further amount of NIS 500 on the date of the child reaching the age of 21; the state will bear all the costs of managing the account until the child reaches the age of 21; the default option will be for the savings to be managed in an investments provident fund, in a solid track, as prescribed by the Capital Market Supervisor at the Ministry of Finance ("the Supervisor"); the Supervisor will supervise the management of the provident funds under her existing legal powers; the financial bodies that will be able to open plans under the "Savings for Every Child" plan will be decided through a threshold terms tender, which will define the commitments of such bodies toward the NII, as well as the rate of management fees that the state will pay; the child's parents will be able to contribute a further NIS 50 to the savings account from the child allowance; the child's parents will be able to decide on the savings channel and will also be able to select the investment track for managing their child's savings. Based on the estimates of the Ministry of Finance, the funds deposited within the framework of the plan should provide a sum of approx. NIS 20,000 for each child after 18 years.

### **THE DIRECTIVES OF THE SUPERVISOR OF BANKS**

#### **BANK HOLDING PERMITS TO ENTITIES MANAGING CUSTOMER FUNDS – REVISED POLICY**

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.

Following that stated above, the Supervisor of Banks published a draft amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment proposes to remove from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

#### **CIRCULAR REGARDING THE EARLY REPAYMENT OF A NON-HOUSING LOAN – CLARIFICATIONS (PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 454)**

On July 11, 2016, the Supervisor of Banks published an amendment to the Directive, the principal points of which are: a requirement to deliver an explanatory sheet to the borrower, proximate to the date of signing the loan agreement, or a credit facility agreement, as the case may be, as well as proximate to the date of the borrower's request for a premature repayment of the loan, such delivery being documented; presentation in the explanatory sheet of that part of the loan balance in respect of which the commission fees would apply as of date of issue of the explanatory sheet, and where the banking corporation had exempted the borrower from the payment of commission fees, the borrower will be given a concentrated explanatory sheet containing information relevant to him; in order to



simplify the explanatory sheet, it should contain a link to the Bank's website in which shall be presented the formula for the capitalization component and the manner of its computation. The amendment to the Directives takes effect on date of its publication. For additional details regarding the amendment to Proper Conduct of Banking Business Directive No. 454, see the 2015 Annual Report (p. 490).

### **PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 367 – DIGITAL BANKING**

The directive was published on July 21, 2016 with the aim of regulating the topic of digital banking in a single directive and replacing several instructions which exist in respect of this matter. The directive represents a material change in the Banking Supervision Department's approach and it aims to remove the existing barriers to further developments in digital banking and provide flexibility to the banking corporations in implementing changing technologies without first having to apply to the Banking Supervision Department in every case. The directive includes principles and leaves it to the banking corporations' discretion to provide the services based on a risk assessment. In accordance with the directive, the banking corporations will be required to determine a policy covering all matters relating to the management of digital banking risks, including data protection risks, fraud and embezzlement, legal risks and reputational risks.

The directive simplifies the process for opening an account over the Internet and removes the existing restriction on amounts.

In contrast to the present situation, the directive defines telephone banking services as a digital banking service and the directive applies to these too.

The directive will mainly take effect on January 1, 2017. A banking corporation is also permitted to act in accordance with the directive prior to the date of it taking effect, subject to fulfilling the mandatory conditions in the directive.

### **AMENDMENT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 420 – DELIVERY OF DIGITAL NOTICES**

An amendment to the Directive was published on July 21, 2016, with the aim of improving and increasing the efficiency of delivery of information to customers. The principal points of the amendment are: granting banking corporations the possibility of sending to customers online most of the notices previously sent by mail, as well as notices and transaction documents provided in the branches; granting banking corporations the possibility of providing customers with an online warning notice service, designed to assist the customer in managing his account; requiring banking corporations to send SMS notices to customers in the following cases: the return of five checks drawn on his account, limitations imposed on the account, an exceptional transaction made in the account; facilitating the joining of mail services, both as regards expanding the communication channels available for joining the service and the relief granted for attaching of joint accounts (upon request of one of the parties to the account). In principle, the amendment became effective upon its publication.

### **CIRCULAR REGARDING THE TYPE OF ACCOUNTS AND THE TERMS, IF EXISTING, WHICH WOULD OBTAIN THE SIGNATURE OF THE CUSTOMER ON AGREEMENTS**

The circular was published on August 7, 2016. The circular states that with respect to the agreements mentioned therein (agreement for the opening and management of a current account, online banking agreement, agreement for the deposit of funds for periods exceeding one year, agreement for the granting of credit, excluding housing loans, securities deposit agreement, agreement regarding receipt of an ATM operating card and agreement for telephonic instructions), the customer's signature would not be required, on condition that the customer would declare via the Internet or via the application of the banking corporation, that he had been given the opportunity to review the agreement. It is also determined that it would be possible to sign an online banking agreement and a telephonic instructions agreement by way of a recorded phone conversation or through a documented computerized answering service, on condition that the agreement in writing would be delivered to the customer prior to date of entry into the agreement and that the customer was given the possibility to review the agreement prior to signing it.

The circular took effect on date of publication; however as regards banking corporations to which Directive No. 435 (Telephonic instructions) applies, the requirement regarding telephonic instruction agreement shall apply as from the revocation date of Directive 435, namely, January 1, 2017.

### **DRAFT PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE IN THE MATTER OF "PROJECT FOR LOCATING DORMANT DEPOSITS AND ACCOUNTS OF DECEASED CUSTOMERS"**

The Bank of Israel published on May 19, 2016, a draft Proper Conduct of Banking Business Directive regarding "a project for locating dormant deposits and accounts of deceased customers". The object of the project is to assist customers of banking corporations to locate dormant deposits and accounts of deceased customers, of whatever amount, by means of an Internet platform.

Within the framework of the project, information would be made accessible to the public at no cost, by means of the Internet, and which would include only the name of the banking corporation at which the dormant deposit or the accounts/deposits of a deceased person are being held. Additional and more detailed information, including the type of account/deposit and the balance of funds held therein may be obtained by the customer only from the banking corporation holding the account.

Within the framework of the project, the banking corporation would be obliged, among other things, to present information and a link to the project on its Internet website; appoint a designated officer to handle approaches; and adopt appropriate procedures for the handling of approaches and identification of customers/heirs. In addition, it is proposed to determine instructions concerning the removal from the project of information relating to a customer, at the request of the customer.

Alongside the publication of the draft Directive and for the purpose of setting up the information infrastructure for the project, a reporting instruction to the Supervisor of Banks No. 839 was published on March 8, 2016, in the matter of the information which banks have to provide regarding dormant deposits and accounts of deceased persons, starting with May 15, 2016.

### **DRAFT PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 450 – DEBT COLLECTION PROCEDURES**

The Supervisor of Banks published on April 7, 2016, an amended draft of Proper Conduct of Banking Business Directive No. 450. In accordance with the most recent draft, a deposit on account of a debt could be made directly to the bank or to its representative, provided that the value date recorded in the books of the bank and in the records of the Debt Execution Office would be the date on which the debtor actually paid the amount. Moreover, the banking corporation is required to provide, once every six months, a statement to the debtor being subject to legal proceedings, detailing the data of the debt and of the arrangement, if one exists. For additional details regarding the amendment to the said Directive, see the 2015 Annual Report (p. 492).



## **PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 403 – NON-BANKING BENEFITS TO CUSTOMERS**

The Supervisor of Banks issued on July 11, 2016, an amendment to Proper Conduct of Banking Business Directive No. 403. The amendment is intended to broaden the possibilities available to banking corporations for the granting of non-banking benefits to their customers, in respect of the current conduct of the customer in his account, with a view of improving the customer's experience regarding the Bank, promote digital banking, encourage appropriate conduct regarding the account and increase competition. All this, without damaging the ability of customers to compare banking services offered to them, to distinguish between the value of the non-banking benefits and the value of the banking products, and without subjecting the non-banking benefits to binding terms. The instruction takes effect on date of its publication.

## **DRAFT JOINT OUTLINE OF THE ENFORCEMENT AND COLLECTION AUTHORITY AND THE BANKING SUPERVISION DEPARTMENT FOR ATTENDING TO SHORTCOMINGS REVEALED IN THE STATE COMPTROLLER'S REPORT, "DEBT COLLECTION MECHANISM AT THE DEBTS EXECUTION OFFICE"**

On June 19, 2016, the Banking Supervision Department published a draft outline for attending to the shortcomings and recommendations set forth in the State Comptroller's report on the Enforcement and Collection Authority. Inter alia, shortcomings were revealed in case files opened in the Debts Execution system, resulting in the apparent over-collection of debts. According to the draft the Enforcement and Collection Authority is to identify the case files where incorrect interest was apparently charged. If the error was caused by the banking corporation, it will have to recalculate the interest so that the debt can be corrected in the Debts Execution Office case file. If the error was caused by the Debts Execution Office, it will act to recalculate the debt and to correct the balance thereof, through ordering the banking corporation to make a refund or setoff. Pursuant to the draft, any excess amount collected by the banking corporation is to be refunded to the debtor together with interest and linkage differences.

## **REDUCING THE REPORTING TO THE SUPERVISION DEPARTMENT DIRECTIVES**

Following a review made by the Supervisor of Banks regarding the focusing, reduction and adaptation of the Regulations and the reporting instructions to the supervisory requirements, a circular was published on June 22, 2016, according to which a number of reporting instructions to the Supervisor of Banks were withdrawn and other reporting instructions were amended.

For further details regarding "Legislation and Supervision", see the 2015 Annual Report (pp. 480-495).

## LEGAL PROCEEDINGS

Material claims outstanding against the Bank and its consolidated subsidiaries are described in the 2015 Annual Report (pp. 280-284) and Note 10 to the condensed financial statements.

### ADDITIONAL LEGAL PROCEEDINGS

**Motion for approval of a class action by employees who had elected early retirement.** The 2015 Annual Report (pp. 496-497) described a claim filed against the Bank and others with the Regional Labor Court on March 24, 2013, together with a motion for approval of the claim as a class action suit against the Bank and Mercantile Discount Bank.

On June 19, 2016, the Court dismissed the motion for approval of the action as a class action suit. Moreover, the Court ruled for the dismissal in limine, of the action against MDB and against Benefit Company. In addition, the Court instructed the Plaintiff to inform until July 21, 2016, how, if at all, he intends to continue with his personal action.

On July 21, 2016, the Plaintiff informed of his intention to appeal against the ruling of the Court.

**Motion for the submission of evidence and disclosure of documents.** Publications appearing recently in the media state that within the framework of an appeal against tax assessments issued to an Australian company by the Australian Tax Authorities, the Court in Australia admitted the request of the Australian tax authorities to an order for the submission of evidence and disclosure of documents by MDB, through the Chairperson of MDB, Ms. Lilach Asher-Topilsky with respect to the operations of the Australian company with MDB in the period from 1997 to 2009.

The appeal of the Australian company to allow the giving of evidence by Ms. Lilach Asher-Topilsky, was admitted on July 12, 2016, and the decision of the Court in Australia was cancelled.

**Petition to the Supreme Court in the matter of the calculation of interest on loans by the banks.** A petition was filed with the Supreme Court on April 18, 2016, for an order nisi against the Supervisor of Banks, the Governor of the Bank of Israel and all banks. The Appellants request the Court for an order nisi against the Supervisor of Banks and the Governor of the Bank of Israel, instructing them to state their reasons why they should not inform the respondent banks that the manner in which they calculate interest charged to debtors is incorrect and should be changed, and alternatively, why they do not appoint a panel of experts, composed of academic mathematicians and economists, which would examine the manner in which banks actually calculate interest, as well as the manner of calculation of interest proposed by the Appellants. The Court is requested to turn the temporary order into a decisive order following submission of the Respondents' response.

It is noted that a motion for approval of a class action against Mizrahi-Tefahot Bank, Leumi Mortgage Bank and Hapoalim Bank, had been filed in the past in a similar matter regarding the manner of calculation of interest on housing loans, and that the Court dismissed the motion. An appeal against this ruling of the Court has been submitted, which, at date of filing the petition is still pending at the Supreme Court. In addition, a similar class action had been filed against Hapoalim Bank, in which the parties agreed to a stay in proceedings until the conclusion of the proceedings in the above mentioned appeal. A motion for approval of a class action had also been filed against the Bank in the matter of excess charges of interest on housing loans in an amount of NIS 80 million. In this case it has been agreed that the Bank would file its response to the motion for approval within sixty days following the rendering of a verdict in the said appeal, or within sixty days from the date on which the Claimant informs of his wish to renew the hearing of the motion, whichever is earlier.

On May 1, 2016, the Supreme Court sitting as a High Court of Justice, decided to dismiss the motion in limine.

## SIGNIFICANT LEGAL PROCEEDINGS SETTLED IN THE SECOND QUARTER OF 2016

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The following material legal proceedings have been concluded in the second quarter of 2016:

1. A lawsuit against the Bank was filed with the Tel Aviv District Court on March 3, 2016, together with a motion for its approval as a class action suit. It is alleged in the motion that the Bank unlawfully charges a commission with respect to a lawyer's warning letter. The Claimant further claimed that following the charging of the said commission to customer accounts, it bears bank interest at a rate higher than the rate stated in the interest charging Act. The Claimant stated the amount of the claim for all members of the class at NIS 100 million. A motion with the consent of the parties, for the withdrawal of the motion for approval of a class action was filed on April 13, 2016. On April 17, 2016, the Court admitted the said withdrawal of the motion.

For additional details, see Note 10, item 4.10 to the condensed financial statements.

2. On September 12, 2006 a lawsuit was filed against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks. On February 25, 2016, the parties filed with the Court an amended compromise agreement together with a motion for its approval. A Court ruling approving the compromise arrangement was given on May 15, 2016.

For additional details, see Note 10, item 4.1 to the condensed financial statements.

3. On November 23, 2006 a lawsuit was filed to the Jerusalem District Court together with a motion for its approval as a class action suit against the Bank, Bank Hapoalim and Bank Leumi. The claimants assessed the amount of the claim at between NIS 5.2 and NIS 5.6 billion for all the defendant banks. On February 25, 2016, the parties filed with the Court an amended compromise agreement together with a motion for its approval. A Court ruling approving the compromise arrangement was given on May 15, 2016.

For additional details, see Note 10, item 4.2 to the condensed financial statements.

For details regarding a compromise agreement submitted on August 10, 2016, in respect of an action together with a motion for approval of the action as a class action, against ICC and others, see Note 10, item 4.5, to the condensed financial statements.

## PROCEEDINGS REGARDING AUTHORITIES

1. For details regarding various proceedings conducted by the Antitrust Commissioner and the Antitrust Tribunal concerning the Group's activities in the credit card field, see in the 2015 Annual Report (pp. 361-362).
2. For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which the Commissioner states that restrictive arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") regarding the communication of information, and for details regarding an agreed Order, for the conclusion of the process, that had been approved by the Antitrust Tribunal, see in the 2015 Annual Report (p. 284), and Note 10 item 6 to the condensed financial statements.
3. For details regarding the transfer of the investigation file to the State Attorney Office and the notice by the State Attorney according to which it is considering the filing of an indictment against ICC, see in the 2015 Annual Report (p. 364) and Note 17 B (2) to the condensed financial statements.

For additional details, see the 2015 Annual Report (p. 499).

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## APPENDIX NO. 1 - RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES

### PART "A" - AVERAGE BALANCES AND INTEREST RATES - ASSETS

|   | For the three months ended June 30 |                 |                |                                |                 |                |
|---|------------------------------------|-----------------|----------------|--------------------------------|-----------------|----------------|
|   | 2016                               |                 |                | 2015                           |                 |                |
|   | Average balance <sup>(2)</sup>     | Interest income | Rate of income | Average balance <sup>(2)</sup> | Interest income | Rate of income |
|   | In NIS millions                    |                 | In %           | In NIS millions                |                 | In %           |
| <b>Interest bearing assets:</b>   |                                    |                 |                |                                |                 |                |
| Credit to the public: <sup>(3)</sup>  |                                    |                 |                |                                |                 |                |
| In Israel   | 104,278                            | 1,121           | 4.37           | 93,974                         | 1,126           | 4.88           |
| Outside Israel  | 20,478                             | 188             | 3.72           | 21,622                         | 188             | 3.52           |
| <b>Total credit to the public</b>   | <b>124,756</b>                     | <b>*1,309</b>   | <b>4.26</b>    | <b>115,596</b>                 | <b>*1,314</b>   | <b>4.62</b>    |
| Credit to the Government:   |                                    |                 |                |                                |                 |                |
| In Israel   | 513                                | 5               | 3.96           | 403                            | 7               | 7.13           |
| Outside Israel  | 14                                 | (10)_           | -              | 45                             | (10)_           | -              |
| <b>Total credit to the Government</b>   | <b>527</b>                         | <b>5</b>        | <b>3.85</b>    | <b>448</b>                     | <b>7</b>        | <b>6.40</b>    |
| Deposits with banks:  |                                    |                 |                |                                |                 |                |
| In Israel   | 3,200                              | 2               | 0.25           | 4,330                          | 3               | 0.28           |
| Outside Israel  | 588                                | 3               | 2.06           | 2,091                          | 4               | 0.77           |
| <b>Total deposits with banks</b>  | <b>3,788</b>                       | <b>5</b>        | <b>0.53</b>    | <b>6,421</b>                   | <b>7</b>        | <b>0.44</b>    |
| Deposits with central banks:  |                                    |                 |                |                                |                 |                |
| In Israel   | 18,595                             | 5               | 0.11           | 20,734                         | 6               | 0.12           |
| Outside Israel  | 1,320                              | 1               | 0.30           | 2,101                          | 1               | 0.19           |
| <b>Total deposits with central banks</b>  | <b>19,915</b>                      | <b>6</b>        | <b>0.12</b>    | <b>22,835</b>                  | <b>7</b>        | <b>0.12</b>    |
| Securities borrowed or purchased under resale agreements:                         |                                    |                 |                |                                |                 |                |
| In Israel   | 286                                | (10)_           | -              | 623                            | (10)_           | -              |
| <b>Total securities borrowed or purchased under resale agreements</b>             | <b>286</b>                         | <b>-</b>        | <b>-</b>       | <b>623</b>                     | <b>-</b>        | <b>-</b>       |
| Bonds held for redemption and available for sale: <sup>(4)</sup>                  |                                    |                 |                |                                |                 |                |
| In Israel   | 22,760                             | 92              | 1.63           | 21,656                         | 122             | 2.27           |
| Outside Israel  | 10,907                             | 65              | 2.41           | 13,268                         | 76              | 2.31           |
| <b>Total bonds held for redemption and available for sale</b>                     | <b>33,667</b>                      | <b>157</b>      | <b>1.88</b>    | <b>34,924</b>                  | <b>198</b>      | <b>2.29</b>    |
| Trading bonds: <sup>(4)</sup>   |                                    |                 |                |                                |                 |                |
| In Israel   | 3,488                              | 6               | 0.69           | 1,820                          | 6               | 1.33           |
| Outside Israel  | 56                                 | 1               | 7.34           | 367                            | (10)_           | -              |
| <b>Total trading bonds</b>  | <b>3,544</b>                       | <b>7</b>        | <b>0.79</b>    | <b>2,187</b>                   | <b>6</b>        | <b>1.10</b>    |
| Other assets:   |                                    |                 |                |                                |                 |                |
| In Israel   | -                                  | -               | -              | -                              | (9)7            | -              |
| Outside Israel  | 693                                | 5               | 2.92           | 694                            | 4               | 2.33           |
| <b>Total other assets</b>   | <b>693</b>                         | <b>5</b>        | <b>2.92</b>    | <b>694</b>                     | <b>11</b>       | <b>6.49</b>    |
| <b>Total interest bearing assets</b>  | <b>187,176</b>                     | <b>1,494</b>    | <b>3.23</b>    | <b>183,728</b>                 | <b>1,550</b>    | <b>3.42</b>    |
| Debtors in respect of credit card operations                                      | 6,045                              |                 |                | 5,773                          |                 |                |
| Other non-interest bearing assets <sup>(5)</sup>                                  | 14,847                             |                 |                | 16,447                         |                 |                |
| <b>Total assets</b>   | <b>208,068</b>                     |                 |                | <b>205,948</b>                 |                 |                |
| Of which: Total interest bearing assets attributable to operations outside Israel |                                    |                 |                |                                |                 |                |
|   | 34,056                             | 263             | 3.12           | 40,188                         | 273             | 2.75           |
| * Commissions included in interest income from credit to the public               |                                    |                 |                |                                |                 |                |
|   |                                    | 78              |                |                                | 84              |                |

For footnotes see page 263.



## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "B" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

|  | For the three months ended June 30 |                   |                 |                                |                   |                 |
|--|------------------------------------|-------------------|-----------------|--------------------------------|-------------------|-----------------|
|  | 2016                               |                   |                 | 2015                           |                   |                 |
|  | Average balance <sup>(2)</sup>     | Interest expenses | Rate of expense | Average balance <sup>(2)</sup> | Interest expenses | Rate of expense |
|  | In NIS millions                    |                   | In %            | In NIS millions                |                   | In %            |
| <b>Interest bearing liabilities:</b>   |                                    |                   |                 |                                |                   |                 |
| Deposits from the public:  |                                    |                   |                 |                                |                   |                 |
| In Israel - On call  | 29,274                             | 1                 | 0.01            | 22,724                         | 1                 | 0.02            |
| In Israel - Time deposits  | 75,961                             | 119               | 0.63            | 74,976                         | 171               | 0.92            |
| <b>Total deposits from the public in Israel</b>  | <b>105,235</b>                     | <b>120</b>        | <b>0.46</b>     | <b>97,700</b>                  | <b>172</b>        | <b>0.71</b>     |
| Outside Israel - On call   | 12,908                             | 15                | 0.47            | 14,691                         | 17                | 0.46            |
| Outside Israel - Time deposits   | 7,638                              | 19                | 1.00            | 9,397                          | 16                | 0.68            |
| <b>Total deposits from the public outside Israel</b>                                   | <b>20,546</b>                      | <b>34</b>         | <b>0.66</b>     | <b>24,088</b>                  | <b>33</b>         | <b>0.55</b>     |
| <b>Total deposits from the public</b>  | <b>125,781</b>                     | <b>154</b>        | <b>0.49</b>     | <b>121,788</b>                 | <b>205</b>        | <b>0.68</b>     |
| Deposits from the Government:  |                                    |                   |                 |                                |                   |                 |
| In Israel  | 238                                | 1                 | 1.69            | 276                            | <sup>(10)</sup> – | –               |
| Outside Israel   | 327                                | 1                 | 1.23            | 621                            | 1                 | 0.65            |
| <b>Total deposits from the Government</b>  | <b>565</b>                         | <b>2</b>          | <b>1.42</b>     | <b>897</b>                     | <b>1</b>          | <b>0.45</b>     |
| Deposits from banks:   |                                    |                   |                 |                                |                   |                 |
| In Israel  | 2,911                              | 2                 | 0.28            | 3,725                          | 5                 | 0.54            |
| Outside Israel   | 1,124                              | 4                 | 1.43            | 1,424                          | 5                 | 1.41            |
| <b>Total deposits from banks</b>   | <b>4,035</b>                       | <b>6</b>          | <b>0.60</b>     | <b>5,149</b>                   | <b>10</b>         | <b>0.78</b>     |
| Securities loaned or sold under repurchase agreements:                                 |                                    |                   |                 |                                |                   |                 |
| Outside Israel   | 3,631                              | 36                | 4.03            | 3,846                          | 36                | 3.80            |
| <b>Total securities loaned or sold under repurchase agreements</b>                     | <b>3,631</b>                       | <b>36</b>         | <b>4.03</b>     | <b>3,846</b>                   | <b>36</b>         | <b>3.80</b>     |
| Bonds and subordinated debt notes:   |                                    |                   |                 |                                |                   |                 |
| In Israel  | 8,727                              | 139               | 6.52            | 9,826                          | 202               | 8.48            |
| <b>Total bonds and subordinated debt notes</b>   | <b>8,727</b>                       | <b>139</b>        | <b>6.52</b>     | <b>9,826</b>                   | <b>202</b>        | <b>8.48</b>     |
| Other liabilities:   |                                    |                   |                 |                                |                   |                 |
| In Israel  | 88                                 | <sup>(9)</sup> 2  | 9.41            | 66                             | <sup>(9)</sup> 1  | 6.20            |
| <b>Total other liabilities</b>   | <b>88</b>                          | <b>2</b>          | <b>9.41</b>     | <b>66</b>                      | <b>1</b>          | <b>6.20</b>     |
| <b>Total interest bearing liabilities</b>  | <b>142,827</b>                     | <b>339</b>        | <b>0.95</b>     | <b>141,572</b>                 | <b>455</b>        | <b>1.29</b>     |
| Non-interest bearing deposits from the public  | 36,692                             |                   |                 | 35,610                         |                   |                 |
| Creditors in respect of credit card operations   | 6,502                              |                   |                 | 6,353                          |                   |                 |
| Other non-interest bearing liabilities <sup>(6)</sup>                                  | 8,661                              |                   |                 | 9,752                          |                   |                 |
| <b>Total liabilities</b>   | <b>194,682</b>                     |                   |                 | <b>193,287</b>                 |                   |                 |
| <b>Total capital resources</b>   | <b>13,386</b>                      |                   |                 | <b>12,661</b>                  |                   |                 |
| <b>Total liabilities and capital resources</b>   | <b>208,068</b>                     |                   |                 | <b>205,948</b>                 |                   |                 |
| <b>Interest margin</b>   |                                    | <b>1,155</b>      | <b>2.28</b>     |                                | <b>1,095</b>      | <b>2.13</b>     |
| <b>Net return on interest bearing assets:<sup>(7)</sup></b>                            |                                    |                   |                 |                                |                   |                 |
| In Israel  | 153,120                            | 967               | 2.55            | 143,540                        | 897               | 2.52            |
| Outside Israel   | 34,056                             | 188               | 2.23            | 40,188                         | 198               | 1.99            |
| <b>Total net return on interest bearing assets</b>                                     | <b>187,176</b>                     | <b>1,155</b>      | <b>2.49</b>     | <b>183,728</b>                 | <b>1,095</b>      | <b>2.41</b>     |
| Of which: Total interest bearing liabilities attributable to operations outside Israel | 25,628                             | 75                | 1.18            | 29,979                         | 75                | 1.00            |

For footnotes see page 263.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "C" - AVERAGE BALANCES AND INTEREST RATES - ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

|  | For the three months ended June 30 |                           |                          |                                |                           |                          |
|--|------------------------------------|---------------------------|--------------------------|--------------------------------|---------------------------|--------------------------|
|  | 2016                               |                           |                          | 2015                           |                           |                          |
|  | Average balance <sup>(2)</sup>     | Interest income (expense) | Rate of income (expense) | Average balance <sup>(2)</sup> | Interest income (expense) | Rate of income (expense) |
|  | In NIS millions                    |                           | In %                     | In NIS millions                |                           | In %                     |
| <b>Non-linked shekels:</b>   |                                    |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 118,096                            | 905                       | 3.10                     | 107,817                        | 820                       | 3.08                     |
| Total interest bearing liabilities                                   | (88,791)                           | (65)                      | (0.29)                   | (79,249)                       | (73)                      | (0.37)                   |
| <b>Interest margin</b>   |                                    | <b>840</b>                | <b>2.81</b>              |                                | <b>747</b>                | <b>2.71</b>              |
| <b>CPI-linked shekels:</b>   |                                    |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 19,281                             | 227                       | 4.79                     | 19,814                         | 370                       | 7.68                     |
| Total interest bearing liabilities                                   | (12,562)                           | (174)                     | (5.66)                   | (15,217)                       | (291)                     | (7.87)                   |
| <b>Interest margin</b>   |                                    | <b>53</b>                 | <b>(0.87)</b>            |                                | <b>79</b>                 | <b>(0.19)</b>            |
| <b>Foreign Currency (including foreign currency-linked shekels):</b> |                                    |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 15,743                             | 99                        | 2.54                     | 15,909                         | 87                        | 2.21                     |
| Total interest bearing liabilities                                   | (15,846)                           | (25)                      | (0.63)                   | (17,127)                       | (16)                      | (0.37)                   |
| <b>Interest margin</b>   |                                    | <b>74</b>                 | <b>1.91</b>              |                                | <b>71</b>                 | <b>1.84</b>              |
| <b>Total operations in Israel:</b>                                   |                                    |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 153,120                            | 1,231                     | 3.25                     | 143,540                        | 1,277                     | 3.61                     |
| Total interest bearing liabilities                                   | (117,199)                          | (264)                     | (0.90)                   | (111,593)                      | (380)                     | (1.37)                   |
| <b>Interest margin</b>   |                                    | <b>967</b>                | <b>2.35</b>              |                                | <b>897</b>                | <b>2.24</b>              |

For footnotes see next page.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "D" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

|   | For the three months ended June 30               |              |              |
|---|--|--------------|--------------|
|   | 2016 Compared to 2015                            |              |              |
|   | Increase (decrease) due to change <sup>(8)</sup> |              | Net change   |
|   | Quantity   | Price        |              |
|   | In NIS millions                                  |              |              |
| <b>Interest bearing assets:</b>                 |  |              |              |
| Credit to the public:                           |  |              |              |
| In Israel                                       | 111  | (116)        | (5)          |
| Outside Israel                                  | (11)   | 11           | -            |
| <b>Total credit to the public</b>               | <b>100</b>                                       | <b>(105)</b> | <b>(5)</b>   |
| Other interest bearing assets:                  |  |              |              |
| In Israel                                       | (2)  | (39)         | (41)         |
| Outside Israel                                  | (28)   | 18           | (10)         |
| <b>Total other interest bearing assets</b>      | <b>(30)</b>                                      | <b>(21)</b>  | <b>(51)</b>  |
| <b>Total interest income</b>                    | <b>70</b>  | <b>(126)</b> | <b>(56)</b>  |
| <b>Interest bearing liabilities:</b>            |  |              |              |
| Deposits from the public:                       |  |              |              |
| In Israel                                       | 9  | (61)         | (52)         |
| Outside Israel                                  | (6)  | 7            | 1            |
| <b>Total deposits from the public</b>           | <b>3</b>   | <b>(54)</b>  | <b>(51)</b>  |
| Other interest bearing liabilities:             |  |              |              |
| In Israel                                       | (23)   | (41)         | (64)         |
| Outside Israel                                  | (7)  | 6            | (1)          |
| <b>Total other interest bearing liabilities</b> | <b>(30)</b>                                      | <b>(35)</b>  | <b>(65)</b>  |
| <b>Total interest expenses</b>                  | <b>(27)</b>                                      | <b>(89)</b>  | <b>(116)</b> |
| <b>Interest income, net</b>                     | <b>97</b>  | <b>(37)</b>  | <b>60</b>    |

#### Footnotes:

- (1) The data is presented after the effect of hedge derivative instruments.
- (2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.
- (3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.
- (4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 6 million and NIS 319 million, respectively; 2015 – NIS 5 million and NIS 592 million respectively.
- (5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.
- (6) Including derivative instruments.
- (7) Net return – net interest income divided by total interest bearing assets.
- (8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.
- (9) Interest income on other assets and interest expenses on other liabilities include income tax, interest income and expenses, respectively.
- (10) An amount lower than NIS 1 million.

## APPENDIX NO. 1 - RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "E" - AVERAGE BALANCES AND INTEREST RATES - ASSETS

|   | For the six months ended June 30 |                   |                |                                |                   |                |
|---|----------------------------------|-------------------|----------------|--------------------------------|-------------------|----------------|
|   | 2016                             |                   |                | 2015                           |                   |                |
|   | Average balance <sup>(2)</sup>   | Interest income   | Rate of income | Average balance <sup>(2)</sup> | Interest income   | Rate of income |
|   | In NIS millions                  |                   | In %           | In NIS millions                |                   | In %           |
| <b>Interest bearing assets:</b>   |                                  |                   |                |                                |                   |                |
| Credit to the public: <sup>(3)</sup>  |                                  |                   |                |                                |                   |                |
| In Israel   | 103,138                          | 2,021             | 3.96           | 94,021                         | 1,892             | 4.07           |
| Outside Israel  | 20,931                           | 380               | 3.66           | 21,927                         | 385               | 3.54           |
| <b>Total credit to the public</b>   | <b>124,069</b>                   | <b>*2,401</b>     | <b>3.91</b>    | <b>115,948</b>                 | <b>*2,277</b>     | <b>3.97</b>    |
| Credit to the Government:   |                                  |                   |                |                                |                   |                |
| In Israel   | 509                              | 8                 | 3.17           | 595                            | 8                 | 2.71           |
| Outside Israel  | 14                               | <sup>(10)</sup> - | -              | 45                             | 1                 | 4.49           |
| <b>Total credit to the Government</b>   | <b>523</b>                       | <b>8</b>          | <b>3.08</b>    | <b>640</b>                     | <b>9</b>          | <b>2.83</b>    |
| Deposits with banks:  |                                  |                   |                |                                |                   |                |
| In Israel   | 3,178                            | 5                 | 0.31           | 3,666                          | 5                 | 0.27           |
| Outside Israel  | 699                              | 4                 | 1.15           | 2,374                          | 10                | 0.84           |
| <b>Total deposits with banks</b>  | <b>3,877</b>                     | <b>9</b>          | <b>0.46</b>    | <b>6,040</b>                   | <b>15</b>         | <b>0.50</b>    |
| Deposits with central banks:  |                                  |                   |                |                                |                   |                |
| In Israel   | 18,357                           | 9                 | 0.10           | 21,820                         | 17                | 0.16           |
| Outside Israel  | 1,549                            | 3                 | 0.39           | 1,837                          | 2                 | 0.22           |
| <b>Total deposits with central banks</b>  | <b>19,906</b>                    | <b>12</b>         | <b>0.12</b>    | <b>23,657</b>                  | <b>19</b>         | <b>0.16</b>    |
| Securities borrowed or purchased under resale agreements:                         |                                  |                   |                |                                |                   |                |
| In Israel   | 268                              | <sup>(10)</sup> - | -              | 601                            | <sup>(10)</sup> - | -              |
| <b>Total securities borrowed or purchased under resale agreements</b>             | <b>268</b>                       | <b>-</b>          | <b>-</b>       | <b>601</b>                     | <b>-</b>          | <b>-</b>       |
| Bonds held for redemption and available for sale: <sup>(4)</sup>                  |                                  |                   |                |                                |                   |                |
| In Israel   | 22,851                           | 136               | 1.19           | 21,103                         | 135               | 1.28           |
| Outside Israel  | 11,076                           | 131               | 2.38           | 13,555                         | 158               | 2.34           |
| <b>Total bonds held for redemption and available for sale</b>                     | <b>33,927</b>                    | <b>267</b>        | <b>1.58</b>    | <b>34,658</b>                  | <b>293</b>        | <b>1.70</b>    |
| Trading bonds: <sup>(4)</sup>   |                                  |                   |                |                                |                   |                |
| In Israel   | 3,313                            | 4                 | 0.24           | 1,782                          | 2                 | 0.22           |
| Outside Israel  | 340                              | 1                 | 0.59           | 253                            | <sup>(10)</sup> - | -              |
| <b>Total trading bonds</b>  | <b>3,653</b>                     | <b>5</b>          | <b>0.27</b>    | <b>2,035</b>                   | <b>2</b>          | <b>0.20</b>    |
| Other assets:   |                                  |                   |                |                                |                   |                |
| In Israel   | -                                | <sup>(9)</sup> 8  | -              | -                              | <sup>(9)</sup> 8  | -              |
| Outside Israel  | 702                              | 10                | 2.87           | 693                            | 9                 | 2.61           |
| <b>Total other assets</b>   | <b>702</b>                       | <b>18</b>         | <b>5.19</b>    | <b>693</b>                     | <b>17</b>         | <b>4.97</b>    |
| <b>Total interest bearing assets</b>  | <b>186,925</b>                   | <b>2,720</b>      | <b>2.93</b>    | <b>184,272</b>                 | <b>2,632</b>      | <b>2.88</b>    |
| Debtors in respect of credit card operations                                      | 6,035                            |                   |                | 5,715                          |                   |                |
| Other non-interest bearing assets <sup>(5)</sup>                                  | 15,141                           |                   |                | 17,128                         |                   |                |
| <b>Total assets</b>   | <b>208,101</b>                   |                   |                | <b>207,115</b>                 |                   |                |
| Of which: Total interest bearing assets attributable to operations outside Israel |                                  |                   |                |                                |                   |                |
|   | 35,311                           | 529               | 3.02           | 40,684                         | 565               | 2.80           |
| * Commissions included in interest income from credit to the public               |                                  | 159               |                | 172                            |                   |                |

For footnotes see page 267.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "F" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

|  | For the six months ended June 30 |                   |                 |                                |                   |                 |
|--|----------------------------------|-------------------|-----------------|--------------------------------|-------------------|-----------------|
|  | 2016                             |                   |                 | 2015                           |                   |                 |
|  | Average balance <sup>(2)</sup>   | Interest expenses | Rate of expense | Average balance <sup>(2)</sup> | Interest expenses | Rate of expense |
|  | In NIS millions                  |                   | In %            | In NIS millions                |                   | In %            |
| <b>Interest bearing liabilities:</b>   |                                  |                   |                 |                                |                   |                 |
| Deposits from the public:  |                                  |                   |                 |                                |                   |                 |
| In Israel - On call  | 28,739                           | 2                 | 0.01            | 21,357                         | 2                 | 0.02            |
| In Israel - Time deposits  | 75,236                           | 151               | 0.40            | 78,553                         | 145               | 0.37            |
| <b>Total deposits from the public in Israel</b>  | <b>103,975</b>                   | <b>153</b>        | <b>0.29</b>     | <b>99,910</b>                  | <b>147</b>        | <b>0.29</b>     |
| Outside Israel - On call   | 13,241                           | 32                | 0.48            | 14,594                         | 34                | 0.47            |
| Outside Israel - Time deposits   | 7,703                            | 38                | 0.99            | 9,593                          | 32                | 0.67            |
| <b>Total deposits from the public outside Israel</b>                                   | <b>20,944</b>                    | <b>70</b>         | <b>0.67</b>     | <b>24,187</b>                  | <b>66</b>         | <b>0.55</b>     |
| <b>Total deposits from the public</b>  | <b>124,919</b>                   | <b>223</b>        | <b>0.36</b>     | <b>124,097</b>                 | <b>213</b>        | <b>0.34</b>     |
| Deposits from the Government:  |                                  |                   |                 |                                |                   |                 |
| In Israel  | 241                              | 1                 | 0.83            | 283                            | 1                 | 0.71            |
| Outside Israel   | 407                              | 2                 | 0.99            | 614                            | 2                 | 0.65            |
| <b>Total deposits from the Government</b>  | <b>648</b>                       | <b>3</b>          | <b>0.93</b>     | <b>897</b>                     | <b>3</b>          | <b>0.67</b>     |
| Deposits from banks:   |                                  |                   |                 |                                |                   |                 |
| In Israel  | 3,009                            | 5                 | 0.33            | 3,849                          | 7                 | 0.36            |
| Outside Israel   | 1,028                            | 8                 | 1.56            | 1,404                          | 10                | 1.43            |
| <b>Total deposits from banks</b>   | <b>4,037</b>                     | <b>13</b>         | <b>0.65</b>     | <b>5,253</b>                   | <b>17</b>         | <b>0.65</b>     |
| Securities loaned or sold under repurchase agreements:                                 |                                  |                   |                 |                                |                   |                 |
| Outside Israel   | 3,741                            | 74                | 4.00            | 3,888                          | 74                | 3.84            |
| <b>Total securities loaned or sold under repurchase agreements</b>                     | <b>3,741</b>                     | <b>74</b>         | <b>4.00</b>     | <b>3,888</b>                   | <b>74</b>         | <b>3.84</b>     |
| Bonds and subordinated debt notes:   |                                  |                   |                 |                                |                   |                 |
| In Israel  | 9,134                            | 192               | 4.25            | 10,225                         | 208               | 4.11            |
| <b>Total bonds and subordinated debt notes</b>   | <b>9,134</b>                     | <b>192</b>        | <b>4.25</b>     | <b>10,225</b>                  | <b>208</b>        | <b>4.11</b>     |
| Other liabilities:   |                                  |                   |                 |                                |                   |                 |
| In Israel  | 85                               | <sup>(9)</sup> 3  | 7.18            | 64                             | <sup>(9)</sup> 2  | 6.35            |
| <b>Total other liabilities</b>   | <b>85</b>                        | <b>3</b>          | <b>7.18</b>     | <b>64</b>                      | <b>2</b>          | <b>6.35</b>     |
| <b>Total interest bearing liabilities</b>  | <b>142,564</b>                   | <b>508</b>        | <b>0.71</b>     | <b>144,424</b>                 | <b>517</b>        | <b>0.72</b>     |
| Non-interest bearing deposits from the public  | 37,016                           |                   |                 | 33,923                         |                   |                 |
| Creditors in respect of credit card operations   | 6,509                            |                   |                 | 6,298                          |                   |                 |
| Other non-interest bearing liabilities <sup>(6)</sup>                                  | 8,587                            |                   |                 | 9,819                          |                   |                 |
| <b>Total liabilities</b>   | <b>194,676</b>                   |                   |                 | <b>194,464</b>                 |                   |                 |
| <b>Total capital resources</b>   | <b>13,425</b>                    |                   |                 | <b>12,651</b>                  |                   |                 |
| <b>Total liabilities and capital resources</b>   | <b>208,101</b>                   |                   |                 | <b>207,115</b>                 |                   |                 |
| <b>Interest margin</b>   |                                  | <b>2,212</b>      | <b>2.22</b>     |                                | <b>2,115</b>      | <b>2.16</b>     |
| <b>Net return on interest bearing assets:<sup>(7)</sup></b>                            |                                  |                   |                 |                                |                   |                 |
| In Israel  | 151,614                          | 1,837             | 2.44            | 143,588                        | 1,702             | 2.38            |
| Outside Israel   | 35,311                           | 375               | 2.14            | 40,684                         | 413               | 2.04            |
| <b>Total net return on interest bearing assets</b>                                     | <b>186,925</b>                   | <b>2,212</b>      | <b>2.38</b>     | <b>184,272</b>                 | <b>2,115</b>      | <b>2.31</b>     |
| Of which: Total interest bearing liabilities attributable to operations outside Israel | 26,120                           | 154               | 1.18            | 30,093                         | 152               | 1.01            |

For footnotes see page 267.

## APPENDIX NO. 1 - RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "G" - AVERAGE BALANCES AND INTEREST RATES - ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

| For the six months ended June 30                                     |                                |                           |                          |                                |                           |                          |
|--|--------------------------------|---------------------------|--------------------------|--------------------------------|---------------------------|--------------------------|
|  | 2016                           |                           |                          | 2015                           |                           |                          |
|  | Average balance <sup>(2)</sup> | Interest income (expense) | Rate of income (expense) | Average balance <sup>(2)</sup> | Interest income (expense) | Rate of income (expense) |
|  | In NIS millions                |                           | In %                     | In NIS millions                |                           | In %                     |
| <b>Non-linked shekels:</b>   |                                |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 116,249                        | 1,781                     | 3.09                     | 107,811                        | 1,647                     | 3.08                     |
| Total interest bearing liabilities                                   | (87,229)                       | (133)                     | (0.31)                   | (79,964)                       | (162)                     | (0.41)                   |
| <b>Interest margin</b>   |                                | <b>1,648</b>              | <b>2.78</b>              |                                | <b>1,485</b>              | <b>2.67</b>              |
| <b>CPI-linked shekels:</b>   |                                |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 19,326                         | 212                       | 2.21                     | 20,251                         | 246                       | 2.44                     |
| Total interest bearing liabilities                                   | (13,097)                       | (173)                     | (2.66)                   | (15,857)                       | (168)                     | (2.13)                   |
| <b>Interest margin</b>   |                                | <b>39</b>                 | <b>(0.45)</b>            |                                | <b>78</b>                 | <b>0.31</b>              |
| <b>Foreign Currency (including foreign currency-linked shekels):</b> |                                |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 16,039                         | 198                       | 2.48                     | 15,526                         | 174                       | 2.25                     |
| Total interest bearing liabilities                                   | (16,118)                       | (48)                      | (0.60)                   | (18,510)                       | (35)                      | (0.38)                   |
| <b>Interest margin</b>   |                                | <b>150</b>                | <b>1.88</b>              |                                | <b>139</b>                | <b>1.87</b>              |
| <b>Total operations in Israel:</b>                                   |                                |                           |                          |                                |                           |                          |
| Total interest bearing assets  | 151,614                        | 2,191                     | 2.91                     | 143,588                        | 2,067                     | 2.90                     |
| Total interest bearing liabilities                                   | (116,444)                      | (354)                     | (0.61)                   | (114,331)                      | (365)                     | (0.64)                   |
| <b>Interest margin</b>   |                                | <b>1,837</b>              | <b>2.30</b>              |                                | <b>1,702</b>              | <b>2.26</b>              |

For footnotes see next page.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "H" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

|   | For the six months ended June 30                 |                   |             |
|---|--|-------------------|-------------|
|   | 2016 Compared to 2015                            |                   |             |
|   | Increase (decrease) due to change <sup>(8)</sup> |                   |             |
|   | Quantity   | Price             | Net change  |
|   | In NIS millions                                  |                   |             |
| <b>Interest bearing assets:</b>                 |  |                   |             |
| Credit to the public:                           |  |                   |             |
| In Israel                                       | 179  | (50)              | 129         |
| Outside Israel                                  | (18)   | 13                | (5)         |
| <b>Total credit to the public</b>               | <b>161</b>                                       | <b>(37)</b>       | <b>124</b>  |
| <b>Other interest bearing assets:</b>           |  |                   |             |
| In Israel                                       | (4)  | (1)               | (5)         |
| Outside Israel                                  | (45)   | 14                | (31)        |
| <b>Total other interest bearing assets</b>      | <b>(49)</b>                                      | <b>13</b>         | <b>(36)</b> |
| <b>Total interest income</b>                    | <b>112</b>                                       | <b>(24)</b>       | <b>88</b>   |
| <b>Interest bearing liabilities:</b>            |  |                   |             |
| Deposits from the public:                       |  |                   |             |
| In Israel                                       | 6  | <sup>(10)</sup> – | 6           |
| Outside Israel                                  | (11)   | 15                | 4           |
| <b>Total deposits from the public</b>           | <b>(5)</b>                                       | <b>15</b>         | <b>10</b>   |
| <b>Other interest bearing liabilities:</b>      |  |                   |             |
| In Israel                                       | (31)   | 14                | (17)        |
| Outside Israel                                  | (12)   | 10                | (2)         |
| <b>Total other interest bearing liabilities</b> | <b>(43)</b>                                      | <b>24</b>         | <b>(19)</b> |
| <b>Total interest expenses</b>                  | <b>(48)</b>                                      | <b>39</b>         | <b>(9)</b>  |
| <b>Interest income, net</b>                     | <b>160</b>                                       | <b>(63)</b>       | <b>97</b>   |

#### Footnotes:

- (1) The data is presented after the effect of hedge derivative instruments.
- (2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.
- (3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.
- (4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 4 million and NIS 269 million, respectively; 2015 – NIS 8 million and NIS 545 million respectively.
- (5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.
- (6) Including derivative instruments.
- (7) Net return – net interest income divided by total interest bearing assets.
- (8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.
- (9) Interest income on other assets and interest expenses on other liabilities include income tax interest income and expenses, respectively.
- (10) An amount lower than NIS 1 million.

## APPENDIX NO. 2 - ADDITIONAL DETAILS - SECURITIES PORTFOLIO

## 1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

|   |                   | June 30, 2016 |   |           |
|---|-------------------|---------------|---|-----------|
|   | Amortized<br>cost | Fair value    | Accumulated other<br>comprehensive income |           |
|   |                   |               | Gains                                     | Losses    |
| In NIS millions                                       |                   |               |   |           |
| Non government bonds                                  |                   |               |   |           |
| Various sectors                                       | 2,264             | 2,281         | 27  | 10        |
| Financial services <sup>(1)</sup>                     | 8,937             | 9,021         | 120                                       | 36        |
| <b>Total non government bonds</b>                     | <b>11,201</b>     | <b>11,302</b> | <b>147</b>                                | <b>46</b> |
| Government bonds                                      |                   |               |   |           |
| U.S. government                                       | 304               | 309           | 5   | *-        |
| Israel Government                                     | 14,846            | 15,128        | 288                                       | 6         |
| Other Governments                                     | 421               | 416           | 2   | 7         |
| <b>Total government bonds</b>                         | <b>15,571</b>     | <b>15,853</b> | <b>295</b>                                | <b>13</b> |
| <b>Total bond in the available-for-sale portfolio</b> | <b>26,772</b>     | <b>27,155</b> | <b>442</b>                                | <b>59</b> |

\*An amount lower than NIS 1 million.

## (1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

|  | June 30, 2016     |              |   |           |
|--|-------------------|--------------|---|-----------|
|  | Amortized<br>cost | Fair value   | Accumulated other<br>comprehensive income |           |
|  |                   |              | Gains                                     | Losses    |
|  | In NIS millions   |              |   |           |
| Banks and banking holding companies <sup>(2)</sup> | 1,420             | 1,404        | 9   | 25        |
| Insurance and provident funds                      | 52                | 54           | 2   | *-        |
| Ginnie Mae   | 5,432             | 5,507        | 80  | 5         |
| Freddie Mac  | 599               | 607          | 9   | 1         |
| Fannie Mae   | 1,030             | 1,048        | 20  | 2         |
| Other  | 404               | 401          | *-  | 3         |
| <b>Total financial services</b>                    | <b>8,937</b>      | <b>9,021</b> | <b>120</b>                                | <b>36</b> |

\*An amount lower than NIS 1 million.



## APPENDIX NO. 2 - ADDITIONAL DETAILS - SECURITIES PORTFOLIO (CONTINUED)

## (2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

|  | June 30, 2016     |              |   |           |
|--|-------------------|--------------|---|-----------|
|  | Amortized<br>cost | Fair value   | Accumulated other<br>comprehensive income |           |
|  |                   |              | Gains                                     | Losses    |
| In NIS millions                                  |                   |              |   |           |
| North America                                    | 33                | 34           | 1   | -         |
| Western Europe <sup>(3)</sup>                    | 1,012             | 992          | 4   | 24        |
| Australia  | 375               | 378          | 4   | 1         |
| <b>Total banks and banking holding companies</b> | <b>1,420</b>      | <b>1,404</b> | <b>9</b>                                  | <b>25</b> |

## (3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

|              |              |            |          |           |
|--------------|--------------|------------|----------|-----------|
| Britain      | 404          | 397        | 1        | 8         |
| Switzerland  | 172          | 167        | -        | 5         |
| Sweden       | 43           | 44         | 1        | -         |
| France       | 218          | 218        | 1        | 1         |
| Netherlands  | 69           | 70         | 1        | -         |
| Germany      | 106          | 96         | -        | 10        |
| <b>Total</b> | <b>1,012</b> | <b>992</b> | <b>4</b> | <b>24</b> |

## 2. HELD-TO-MATURITY SECURITIES - DATA ACCORDING TO ECONOMIC SECTORS

## Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors

|   |                      |            | June 30, 2016                                    |   |
|---|----------------------|------------|--|---|
|   | Amortized cost       | Fair value | Unrecognized gains from adjustment to fair value | Unrecognized losses from adjustment to fair value |
| In NIS millions                               |                      |            |  |   |
| Non government bonds                          |                      |            |  |   |
| Public and community services                 | <sup>(1)</sup> 1,762 | 1,874      | 112  | -   |
| Financial services*                           | 1,045                | 1,062      | 22   | 5   |
| Total non government bonds                    | 2,807                | 2,936      | 134  | 5   |
| Total Government bonds                        | 3,965                | 4,285      | 320  | -   |
| Total bonds in the held-to-maturity portfolio | 6,772                | 7,221      | 454  | 5   |

\*Following are details of Held-to-maturity bonds in the financial services sector:

|                                 |              |              |           |                  |
|---------------------------------|--------------|--------------|-----------|------------------|
| Ginnie Mae                      | 286          | 291          | 6         | 1                |
| Freddie Mac                     | 457          | 459          | 4         | 2                |
| Fannie Mae                      | 148          | 150          | 2         | <sup>(2)</sup> - |
| Other                           | 154          | 162          | 10        | 2                |
| <b>Total financial services</b> | <b>1,045</b> | <b>1,062</b> | <b>22</b> | <b>5</b>         |

Footnotes:

(1) Most of this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 213-187 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

(2) An amount lower than NIS 1 million.

## APPENDIX NO. 2 - ADDITIONAL DETAILS - SECURITIES PORTFOLIO (CONTINUED)

**3. TRADING BONDS - DATA ACCORDING TO ECONOMIC SECTORS**

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

| June 30, 2016                               |                |              |  |   |
|---|----------------|--------------|--|---|
|   | Amortized cost | Fair value   | Unrecognized gains from adjustment to fair value | Unrecognized losses from adjustment to fair value |
| In NIS millions                             |                |              |  |   |
| <b>Non government bonds</b>                 |                |              |  |   |
| Various sectors                             | 27             | 28           | 1  | -   |
| Financial services                          | 56             | 57           | 1  | (1)   |
| <b>Total non government bonds</b>           | <b>83</b>      | <b>85</b>    | <b>2</b>   | <b>-</b>  |
| <b>Total government bonds</b>               | <b>3,104</b>   | <b>3,115</b> | <b>12</b>  | <b>1</b>  |
| <b>Total bonds in the trading portfolio</b> | <b>3,187</b>   | <b>3,200</b> | <b>14</b>  | <b>1</b>  |

Footnote:

(1) An amount lower than NIS 1 million.

## APPENDIX NO. 3 – ADDITIONAL DETAILS

### 1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

**Credit risk involved in financial instruments.** The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

**(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank**

|   | As of<br>June 30 | As of<br>December<br>31 |
|---|------------------|-------------------------|
|   | 2016             | 2015                    |
|   | In NIS million   |                         |
| Balance-sheet balances of assets deriving from derivative instruments against foreign banks |                  |                         |
| With an AAA rating  | 18               | 3                       |
| With an AA+ rating  | 3                | 1                       |
| With an AA rating   | 286              | 309                     |
| With an AA- rating  | 177              | 78                      |
| With an A+ rating   | 680              | 604                     |
| With an A rating  | 486              | 306                     |
| With an A- rating   | 261              | 267                     |
| With a BBB+ rating  | -                | 123                     |
| With a BBB rating   | 1                | -                       |
| With a BBB- rating  | 19               | 24                      |
| Not rated   | 25               | 23                      |
| <b>Total against foreign banks</b>  | <b>1,956</b>     | <b>1,738</b>            |
| <b>Total against Israeli banks</b>  | <b>531</b>       | <b>621</b>              |
| <b>Total Balance-sheet balances of assets deriving from derivative instruments</b>          | <b>2,487</b>     | <b>2,359</b>            |

## APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

**1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank

|   | As of<br>June 30<br>2016 | As of December<br>31<br>2015 |
|---|--------------------------|------------------------------|
|   | In NIS million           |                              |
| Off balance sheet balances of assets deriving from derivative instruments against foreign banks |                          |                              |
| With an AAA rating  | -                        | 10                           |
| With an AA+ rating  | 2                        | 1                            |
| With an AA rating   | 4                        | 5                            |
| With an AA- rating  | 22                       | 21                           |
| With an A+ rating   | 22                       | 27                           |
| With an A rating  | 27                       | 51                           |
| With an A- rating   | 1                        | 1                            |
| <b>Total against foreign banks</b>  | <b>78</b>                | <b>116</b>                   |
| <b>Total against Israeli banks</b>  | <b>139</b>               | <b>90</b>                    |
| <b>Total Off Balance-sheet balances of assets deriving from derivative instruments</b>          | <b>217</b>               | <b>206</b>                   |

## APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

## 1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

|  | As of June 30, 2016 | As of June 30, 2015 | As of December 31, 2015 |
|--|---------------------|---------------------|-------------------------|
|  | in NIS million      |                     |                         |
| Agriculture  |                     | 2                   | -                       |
| Industry:  |                     |                     |                         |
| Machines, electrical and electronic equipment  | 41                  | 58                  | 68                      |
| Mining, chemical industry and oil products   | 45                  | 27                  | 14                      |
| Other  | 33                  | 35                  | 27                      |
| Total industry   | 119                 | 120                 | 109                     |
| Construction and real estate:  |                     |                     |                         |
| Acquisition of real estate for construction  | 15                  | 8                   | 15                      |
| Real estate holdings   | 125                 | 62                  | 63                      |
| Other  | 6                   | 9                   | 12                      |
| Total Construction and real estate   | 146                 | 79                  | 90                      |
| Electricity and water  | 117                 | 242                 | 90                      |
| Commerce   | 142                 | 91                  | 22                      |
| Hotels, hotel services and food  | 6                   | 4                   | -                       |
| Transpiration and storage  | 160                 | 58                  | 9                       |
| Communications and computer services   | 70                  | 84                  | 75                      |
| Financial services:  |                     |                     |                         |
| Financial institution (excluding banks)  | 428                 | 253                 | 292                     |
| Private customers active on the capital market   | 635                 | 380                 | 304                     |
| Financial holding institutions   | 79                  | 70                  | 53                      |
| Insurance and provident fund services  | -                   | -                   | -                       |
| Total financial services   | 1,142               | 703                 | 649                     |
| Business and other services  | 5                   | 14                  | 5                       |
| Public and community services  | 18                  | 10                  | 11                      |
| Private individuals - housing loans  | -                   | -                   | -                       |
| Private individuals - other  | 9                   | 49                  | 21                      |
| <b>Total</b>   | <b>1,934</b>        | <b>1,456</b>        | <b>1,081</b>            |
| .Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received | (523)               | (315)               | (260)                   |
| <b>Total credit risk in respect of derivative instruments</b>  | <b>1,411</b>        | <b>1,141</b>        | <b>821</b>              |

## APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

**2. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS**

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

**Details divided by governments with respect to the total securities portfolio**

|                           | June 30, 2016   |                           | December 31, 2015 |                           |
|---------------------------|-----------------|---------------------------|-------------------|---------------------------|
|                           | Book value      | Fair value <sup>(1)</sup> | Book value        | Fair value <sup>(1)</sup> |
|                           | In NIS millions |                           |                   |                           |
| Of the Israeli Government | 22,093          | 22,412                    | 21,358            | 21,673                    |
| U.S. government           | 425             | 426                       | 1,515             | 1,515                     |
| Other governments         | 415             | 415                       | 252               | 252                       |
| <b>Total</b>              | <b>22,933</b>   | <b>23,253</b>             | <b>23,125</b>     | <b>23,440</b>             |

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

## APPENDIX NO. 4 – GLOSSARY

|                                 |  |
|---------------------------------|--|
| Option                          | A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.  |
| Bond                            | A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).  |
| Least developed countries – LDC | Countries classified by the World Bank in a low or medium income group.  |
| Regulatory capital              | The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: <ol style="list-style-type: none"> <li>Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202).</li> <li>Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.</li> </ol> |
| Indebtedness                    | Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313).  |
| Special mention debt            | A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.  |
| Problematic debt                | A debt that is classified as "impaired", "substandard" or under "special mention".   |
| Substandard debt                | A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.  |
| Impaired debt                   | A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.   |
| Collateral dependent debt       | An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.  |
| Total capital adequacy ratio    | The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.   |
| Recorded amount of a debt       | The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.  |
| Basel instructions              | The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.   |
| Subordinated debt notes         | Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.   |

## APPENDIX NO. 4 – GLOSSARY (CONTINUED)

|  |  |
|--|--|
| Off-balance-sheet credit instruments                         | Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).  |
| Derivative instrument  | <p>A financial instrument or other contract that contains three cumulative features:</p> <ol style="list-style-type: none"> <li>A basis and nominal value that determine the settlement amount of the instrument.</li> <li>The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required).</li> <li>Its terms require or permit net settlement.</li> </ol>  |
| Financial instrument   | <p>Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions:</p> <ol style="list-style-type: none"> <li>The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party.</li> <li>The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.</li> </ol> |
| Average maturity   | A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.  |
| Over-the-counter (OTC) derivative                            | Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.   |
| Counterparty credit risk – CVA (Credit Valuation Adjustment) | The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.  |
| Active market  | A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.  |
| Financing rate - LTV (Loan To Value Ratio)                   | The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".   |
| ICAAP (Internal Capital Adequacy Assessment Process)         | The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.  |



## APPENDIX NO. 5 – INDEX

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## Main Office

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website: [www.discountbank.co.il](http://www.discountbank.co.il)

## Subsidiaries In Israel

### **BANKING**

Mercantile Discount Bank

### **CAPITAL MARKET AND INVESTMENTS**

Tafnit Discount Asset Management

Israel Discount Capital Markets &  
Investments

Discount Underwriting & Issuing

Discount Manpikim

### **CREDIT CARDS COMPANIES**

Israel Credit Cards

Diners Club

### **TRUST SERVICES**

Discount Trust

## Subsidiary Banks Abroad

Israel Discount Bank of New York, USA

website: [www.idbbank.com](http://www.idbbank.com)

Head Office: 511 Fifth Avenue, New York

Staten Island, NY Branch:

201 Edward Curry Avenue, Suite 204

Brooklyn, NY Branch:

705 Avenue U

Short Hills, NJ Branch:

150 JFK Parkway

Beverly Hills, CA Branch:

9401 Wilshire Boulevard, Suite 600

Downtown Los Angeles, CA Branch:

888 South Figueroa Street, Suite 550

Aventura, FL Branch:

Harbour Centre, 18851 NE 29th Avenue,  
Suite 600

Representative Offices: Israel /  
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