

DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL AND ADDITIONAL INFORMATION REGARDING RISKS

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

4	Disclosure according to the third pillar of Basel and additional information regarding risks - List of tables
5	The regulatory capital and management thereof
5	Capital structure
18	Capital adequacy
20	Additional information regarding capital adequacy not included in the disclosure requirements of the third Pillar
21	Leverage ratio
23	Exposure to risks and risk management
23	Credit risk
23	Credit risk mitigation
25	Additional disclosures
34	Market risks
35	Quantitative disclosure
41	Indices and additional models
45	Shares position in the Banking book (Table 13)
46	Liquidity and finance risks
46	Liquidity coverage ratio
49	Financing risk
49	Operational risks
50	Other risks
50	Data and cyber protection risks
50	Compliance risks
51	Exposure to cross-border risks in respect of the activities of foreign resident customers
53	Glossary

Disclosure according to the third pillar of Basel and additional information regarding risks – List of tables	Page No.
Capital components for calculating ratio of capital	5
Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3)	6
Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)	9
Statement of flows of the regulatory capital (Table 2 D)	17
Risk assets and capital requirements (Table 3 B, D, E, F)	18
Capital for calculating ratio of capital (Table 3 G)	19
Ratio of capital to risk assets (Table 3 H and I)	19
Risk weighted assets according to Regulatory Operating Segments	20
A summary of movement and changes in risk-weighted assets	20
Comparison between Balance sheet assets and the measurement of exposure for the purpose of the leverage ratio (Table 3 A)	21
Disclosure of the leverage ratio (Table 3 B)	22
Credit risk mitigation (table 7)	24
Gross credit risk exposure	25
Distribution of exposures according to main geographical areas and problematic debts according to main geographical areas	25
Distribution of the exposure according to counterparty, classified according to main types of credit exposure (Table 4 H)	27
Division of the portfolio according to remaining contractual maturity periods(1) (Table 4 E)	28
Distribution of the exposures according to main sectors	29
Change in the balance of allowance for credit losses (Table 4 H)	29
Amount of exposure after allowance for credit losses and before credit risk mitigation	30
Amount of exposure after allowance for credit losses and after credit risk mitigation	31
Disclosure regarding derivatives (Table 8)	32
Securitization exposure	33
Details regarding CMBS Exposure	34
Fair value of the Bank and its consolidated subsidiaries' financial instruments, excluding non-monetary items (before the effect of hypothetical changes in interest rate)	36
Effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-monetary items	37
Summary of the Bank's and its consolidated subsidiaries' exposure to fluctuations in interest rates, including the internal rate of return (IRR) and the average maturity, as per the various linkage segments including assumptions regarding early repayments	37
Details of the effect of hypothetical changes in interest rates of 100 base points on the Group's economic value	38
Relation between balance sheet items and the positions included in the disclosure of Market risk	39
Details of the effect of parallel changes of 100 base points in the interest rate applying to the banking book	39
Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)	40
Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios	40
Details of the exposure in terms of Total VaR	41
Details of the exposure in terms of - VaR in trading activity	41
The actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)	42
Capital sensitivity to changes in exchange rate	42
Data (accounting) as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries	44
Details of capital allocation to market risks according to the standard approach	45
Details regarding investments in shares	45
Capital requirement regarding share position	46
Details of the composition of the liquidity buffer	47
Distribution of the liquidity coverage ratio (average for the fourth quarter) according to the legal entities within the Group:	47
Liquidity coverage ratio (Table 16)	48
Financing risk - available and unrestricted assets	49

The meeting of the Board of Directors held on November 17, 2016, in the framework of approval of the Bank's Report for the third quarter of 2016, decided also to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks".

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

THE REGULATORY CAPITAL AND MANAGEMENT THEREOF

For details regarding Basel and the regulatory capital requirements, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 5-6).

For details regarding the framework for measurement and capital adequacy according to the first Pillar of Basel (table 1), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 6).

Raising of capital. For details regarding the raising of capital in September 2016, see "Management's handling of current material issues" in the Directors and Management Report and in Note 20 to the condensed financial statements.

CAPITAL STRUCTURE

Capital components for calculating ratio of capital

	Unaudited		Audited
	September 30,		December 31,
	2016	2015	2015
	in NIS millions		
A. Tier 1 capital			
Common equity	14,568	13,747	13,634
Difference between common equity and common equity tier 1	207	161	168
Total common equity tier 1 before supervisory adjustments and deductions	14,775	13,908	13,802
Supervisory adjustments and deductions			
Goodwill and other intangible assets	160	142	142
Deferred tax assets	-	102	108
Supervisory adjustments and other deductions	4	4	3
Total supervisory adjustments and deductions before adjustments in respect of the efficiency plan	164	248	253
Total adjustments in respect to the efficiency plan	198	-	-
Total common equity tier 1 after supervisory adjustments and deductions	14,809	13,660	13,549
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	1,068	1,247	1,247
Deductions	-	-	-
Total additional tier 1 capital after deductions	1,068	1,247	1,247
C. Tier 2 capital			
Instruments before deductions	3,534	4,265	4,053
Provision before deductions	1,645	1,554	1,557
Total tier 2 capital before deductions	5,179	5,819	5,610
Deductions	-	-	-
Total tier 2 capital	5,179	5,819	5,610

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3)

	Consolidated regulatory balance sheet September 30, 2016	Consolidated regulatory balance sheet September 30, 2015	Consolidated regulatory balance sheet December 31, 2015	References to components of the regulatory capital ⁽²⁾
In NIS million				
Assets				
Cash and deposits with banks	25,873	27,672	28,518	
Securities*	37,491	39,251	38,935	
* Of which: Investments in the equity of financial corporations, which do not exceed 10% of the share capital of the financial corporation	43	533	479	14
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	-	-	-	21
* Of which: Other securities	37,448	38,718	38,456	
securities borrowed or purchased under resale agreements	177	173	279	
Credit to the public	141,490	125,601	129,268	
allowance for credit losses*	(2,175)	(2,009)	(2,052)	
* Of which: group allowance for credit losses included in tier 2	(1,460)	(1,367)	(1,351)	20
* Of which: Allowance for credit losses not included in the regulatory capital	(715)	(642)	(701)	
Credit to the public, net	139,315	123,592	127,216	
Credit to Government	727	491	515	
Investments in affiliated companies	151	142	144	
* Of which: Investments in the equity of financial corporations, which exceed 10% of the share capital of the financial corporation and which do not exceed the deduction threshold	23	22	22	21
* Of which: Investment in other affiliated companies	128	120	122	
Buildings and equipment	2,255	2,177	2,175	
Intangible assets and goodwill*	160	142	142	
* Of which: goodwill	160	142	142	6
* Of which: other Intangible assets	-	-	--	7
Assets in respect of derivative instruments	3,242	3,762	3,208	
Other assets	4,035	4,117	3,696	
* Of which: Deferred tax assets**	⁽³⁾ 1,681	1,629	1,636	
** Of which: Deferred tax assets excluding those attributed to timing differences	-	16	20	9
** Of which: Deferred tax liabilities in respect of intangible assets	-	-	--	8
** Of which: Other deferred tax assets	1,681	1,613	1,616	
* Of which: Excess of deposits over provision	-	-	--	12
* Of which: Additional other assets	2,354	2,488	2,060	
Non-current assets held for sale	25	5,395	432	
Total assets	213,451	206,914	205,260	

For notes see p. 8.

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3) (continued)

	Consolidated regulatory balance sheet September 30, 2016	Consolidated regulatory balance sheet September 30, 2015	Consolidated regulatory balance sheet December 31, 2015	References to components of the regulatory capital ⁽²⁾
In NIS million				
Liabilities and Equity				
Deposits from the public	164,892	⁽¹⁾ 153,068	⁽¹⁾ 157,875	
Deposits from banks	5,711	4,833	3,907	
Deposits from the Government	314	⁽¹⁾ 320	⁽¹⁾ 306	
Securities loaned or sold under repurchase agreements	3,538	3,853	3,833	
Collateralized bonds and subordinated capital notes*	8,798	9,937	9,570	
* Of which: Deferred debt notes not recognized as regulatory capital	4,196	4,425	4,270	
* Of which: Deferred debt notes recognized as regulatory capital**	4,602	5,512	5,300	b16,b18
** Of which: Qualified as regulatory capital components	-	-	-	a16,a18
** Of which: Not qualified as regulatory capital components and subject to transitional instructions	4,602	5,512	5,300	b16,b18
Liabilities in respect of derivative instruments*	3,900	4,099	3,475	
* Of which: In respect of self credit risk	6	10	6	11
Other liabilities*	11,730	10,415	10,985	
* Of which: group allowance for credit losses included in tier 2	185	187	206	20
* Of which: Deferred tax liability attributed to pension	-	-	--	13
* Of which: Adjustment in respect of put option for Non-controlling interests holders in a subsidiary which is subject to transitional instructions	-	-	--	4
Liabilities held for sale	-	6,642	1,675	
Total liabilities	198,883	193,167	191,626	

For notes see next page.

Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3)

	Consolidated regulatory balance sheet September 30, 2016	Consolidated regulatory balance sheet September 30, 2015	Consolidated regulatory balance sheet December 31, 2015	References to components of the regulatory capital ⁽²⁾
In NIS million				
Equity attributed to the banking corporation's shareholders*	14,154	13,309	13,288	
* Of which: Ordinary share capital**	10,255	9,875	9,852	
** Of which: Ordinary share capital	672	665	665	1
** Of which: Retained earnings	9,842	9,052	9,082	3
** Of which: Accumulated other comprehensive income***	(259)	158	105	4
*** Of which: Net losses on the hedging of cash flows from items not presented in the balance sheet at fair value	-	-	--	10
*** Of which: Net loss on financial statements translation adjustments	(55)	57	66	
* Of which: Capital reserves	3,899	3,434	3,434	2
* Of which: Preference share capital**	-	-	--	
** Of which: Qualified as regulatory capital components	-	-	--	a15
** Of which: Not qualified as regulatory capital components and subject to transitional instructions	-	-	--	b15
* Of which: Other capital instruments**	-	-	--	
** Of which: Qualified as regulatory capital components	-	-	--	
** Of which: Not qualified as regulatory capital components and subject to transitional instructions	-	-	--	
Non-controlling interests*	414	438	346	
* Of which: Non-controlling interests that can be attributed to common equity tier 1	300	372	284	5
* Of which: Non-controlling interests that can be attributed to additional tier 1 capital	-	-	--	17
* Of which: Non-controlling interests attributed to tier 2 capital	-	-	--	19
* Of which: Non-controlling interests not attributable to the regulatory capital	114	66	62	
Total equity capital	14,568	13,747	13,634	
Total assets and liabilities	213,451	206,914	205,260	

Notes:

- (1) Reclassified - see Note 1 H to the condensed financial statements.
- (2) The references are to the Table "Mapping of the components used for the presentation of the composition of the regulatory capital", presented hereunder, to the figure presented under the column "References from stage 2".
- (3) In view of the relief granted by the Supervisor of Banks with respect to the 2016 efficiency plan, the balance of deferred tax assets does not include the deferred taxes in respect of the efficiency plan.

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)

		September 30, 2016		September 30, 2015		December 31, 2015	
		In NIS million					
		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
Common equity tier 1 : instruments and retained earnings						References from stage 2 ⁽²⁾	
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common equity tier 1	4,571	-	4,099	-	4,099	1+2
2	Retained earnings, including dividends proposed or declared subsequent to balance sheet date	9,863	21	9,084	32	9,114	3
3	Disclosed accumulated other comprehensive income and retained earnings	41	300	353	195	305	4
4	Common equity tier 1 instruments issued by the corporation qualified for inclusion in the regulatory capital in the transitional period	-	-	-	-	-	
5	Ordinary shares issued by consolidated subsidiaries of the banking corporation and held by third parties (minority interests)	300	76	372	97	284	5
6	Common equity tier 1: before regulatory adjustments and deductions	14,775	396	13,908	325	13,802	325
Additional tier 1 capital: deductions							
7	Adjustments/provisions, stabilization reserves in respect of value assessments	-	-	-	-	-	-
8	Goodwill, less deferred taxes liability	160	-	142	-	142	6
9	Other intangible assets, excluding mortgage service rights, less deferred taxes liability	-	-	-	-	-	7+8
10	Deferred tax assets the realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	6	10	8	9
11	Amount of accumulated other comprehensive income in respect of the hedge of cash flows from items not presented in the balance sheet at fair value	-	-	-	-	-	10
12	Negative differences between provisions for anticipated losses	-	-	-	-	-	
13	Increase in equity capital due to securitization transactions	-	-	-	-	-	
14	Unrealized income and losses due to changes in fair value of liabilities deriving from changes in self credit risk of the banking corporation. Furthermore, in relation to liabilities in respect of derivative instruments, all accounting debt valuation adjustments (DVA) deriving from the self credit risk of the bank should be deducted	4	2	4	6	3	11

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

		September 30, 2016		September 30, 2015		December 31, 2015	
		In NIS million					
		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
Common equity tier 1 : instruments and retained earnings						References from stage 2 ⁽²⁾	
15	Surplus deposits over provision, net of deferred tax liability to be settled if the asset is impaired or is eliminated in accordance with the reporting to the public directives	-	-	-	-	-	12+13
16	Investment in own ordinary shares, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	-	
17	Mutual cross-investments in ordinary shares of financial corporations	-	-	-	-	-	
18	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	14
19	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	
20	Mortgage service rights the amount of which exceeds 10% of the Common equity tier 1	-	-	-	-	-	
21	Deferred tax assets created by timing differences, the amount of which exceeds 10% of the Common equity tier 1	120	80	96	142	100	151
22	Amount of mortgage service rights, deferred tax assets arising from timing differences and investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations exceeding 15% of the Common equity tier 1 of the banking corporation	-	-	-	-	-	
23	Of which: in respect of investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations	-	-	-	-	-	
24	Of which: in respect of mortgage service rights	-	-	-	-	-	
25	Of which: deferred tax assets created by timing differences	-	-	-	-	-	
26	Regulatory adjustments and additional deductions determined by the Supervisor of Banks	(318)	-	-	-	-	

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

		September 30, 2016		September 30, 2015		December 31, 2015	
		In NIS million					
		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
Common equity tier 1 : instruments and retained earnings						References from stage 2 ⁽²⁾	
	Of which: in respect of investments in the equity of financial corporations	-	-	-	-	-	-
26A	Of which: in respect of mortgage service rights	-	-	-	-	-	-
26B	Of which: additional regulatory adjustments to Common equity tier 1	(120)	-	-	-	-	-
26C	Of which: adjustments in respect to the efficiency plan	(198)					
	Regulatory adjustments to Common equity tier 1 subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-
27	Deductions applying to Common equity tier 1 because the amounts of additional tier 1 capital and of tier 2 capital are insufficient to cover the deductions	-	-	-	-	-	-
28	Total regulatory adjustments and deductions from Common equity tier 1	(34)	82	248	158	253	165
29	Common equity tier 1	14,809	478	13,660	483	13,549	491
Additional tier 1 capital: deductions							
30	Additional tier 1 share capital instruments issued by the banking corporation and premium on these instruments	-	-	-	-	-	-
31	Of which: classified as equity capital in accordance with the reporting to the public directives	-	-	-	-	-	15a+16a
32	Of which: classified as a liability in accordance with the reporting to the public directives	-	-	-	-	-	-
33	Additional tier 1 capital instruments issued by the banking corporation qualified for inclusion in the regulatory capital for the transitional period	1,068	1,068	1,247	1,247	1,247	1,247 15b+16b
34	Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors	-	-	-	-	-	17

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

	September 30, 2016		September 30, 2015		December 31, 2015		
	In NIS million						
	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 ⁽²⁾
Common equity tier 1: instruments and retained earnings							
Of which: Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from additional tier 1 capital	-	-	-	-	-	-	
35							
36	Additional tier 1 capital before deductions	1,068	1,068	1,247	1,247	1,247	1,247
Additional tier 1 capital: deductions							
37	Investment in own capital instruments included in additional tier 1 capital, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)	-	-	-	-	-	-
38	Mutual cross-investments in capital instruments included in additional tier 1 capital	-	-	-	-	-	-
39	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-
40	Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-
41	Additional deductions determined by the Supervisor of Banks	-	-	-	-	-	-
41A	Of which: in respect of investments in the capital of financial corporations	-	-	-	-	-	-
41B	Of which: additional deductions from Common equity tier 1 not included in the framework of Section 41(a)	-	-	-	-	-	-
	Deductions from additional tier 1 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-
	Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

		September 30, 2016		September 30, 2015		December 31, 2015	
		In NIS million					
		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	
Common equity tier 1 : instruments and retained earnings						References from stage 2 ⁽²⁾	
Deductions applying to additional tier 1 capital because the amount of tier 2 capital is insufficient to cover the deductions		-	-	-	-	-	-
42		-	-	-	-	-	-
43	Total deductions from additional tier 1 capital	-	-	-	-	-	-
44	Additional tier 1 capital	1,068	1,068	1,247	1,247	1,247	1,247
45	Tier 1 capital	15,877	1,546	14,907	1,730	14,796	1,737
Tier 2 capital: Instruments and Provisions							
Instruments issued by the banking corporation (not included in tier 1 capital) and premium on such instruments		-	-	-	-	-	18a
46		-	-	-	-	-	-
Tier 2 capital instruments issued by the banking corporation, which are qualified for inclusion in the regulatory capital during the transitional period		3,534	3,534	4,265	4,265	4,053	4,053
47		3,534	3,534	4,265	4,265	4,053	4,053
Tier 2 capital instruments issued by subsidiary companies of the banking corporation to third party investors		-	-	-	-	-	-
48		-	-	-	-	-	-
Of which: Tier 2 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from tier 2 capital		-	-	-	-	-	-
49		-	-	-	-	-	-
Group allowances for credit losses before the related tax effect		1,645	-	1,554	-	1,557	-
50		1,645	-	1,554	-	1,557	-
51	Tier 2 capital before deductions	5,179	3,534	5,819	4,265	5,610	4,053
Tier 2 capital: deductions							
Investment in own tier 2 capital instruments, held directly or indirectly (including commitment to purchase instruments subject to contractual obligation)		-	-	-	-	-	-
52		-	-	-	-	-	-
Mutual cross-holdings of tier 2 capital instruments of financial corporations		-	-	-	-	-	-
53		-	-	-	-	-	-
Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation		-	-	-	-	-	-
54		-	-	-	-	-	-

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

	September 30, 2016		September 30, 2015		December 31, 2015	
	In NIS million					
	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 ⁽²⁾
Common equity tier 1 : instruments and retained earnings						
Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-
55						
Deduction determined by the Supervisor of Banks	-	-	-	-	-	-
56						
Of which: in respect of investments in the capital of financial corporations	-	-	-	-	-	-
56A						
Of which: additional deductions to tier 2 capital	-	-	-	-	-	-
56B						
Regulatory adjustments to tier 2 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	-	-	-	-	-	-
Of which: investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-	-
57						
Total deductions to tier 2 capital	-	-	-	-	-	-
58						
Tier 2 capital	5,179	3,534	5,819	4,265	5,610	4,053
59						
Total capital	21,056	5,080	20,726	5,995	20,406	5,790
Total weighted average of risk assets in accordance with the treatment required prior to the adoption of Directive 202 in accordance with Basel III	80	-	152	-	163	-
Of which: deferred tax assets the realization of which is based on the future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	-	-	10	-	12	-
Of which: deferred tax assets arising from timing differences	80	-	142	-	151	-
60						
Total weighted average of risk assets	⁽³⁾ 151,863	-	143,802	-	142,460	-
Capital ratios and capital conservation buffers (percentages)						
61						
Common equity tier 1	9.8	-	9.5	-	9.5	-
62						
Tier 1 capital	10.5	-	10.4	-	10.4	-
63						
Total capital	13.9	-	14.4	-	14.3	-
64						
Not relevant	-	-	-	-	-	-
65						
Not relevant	-	-	-	-	-	-

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

		September 30, 2016		September 30, 2015		December 31, 2015	
		In NIS million					
		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III		Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 ⁽²⁾
Common equity tier 1 : instruments and retained earnings							
66	Not relevant	-	-	-	-	-	
67	Not relevant	-	-	-	-	-	
68	Not relevant	-	-	-	-	-	
Minimum requirements determined by the Supervisor of Banks							
69	Minimum Common equity tier 1 ratio determined by the Supervisor of Banks	⁽¹⁾ 9.1	-	⁽¹⁾ 9.0	-	⁽¹⁾ 9.1	-
70	Minimum Tier I capital ratio determined by the Supervisor of Banks	⁽¹⁾ 9.1	-	⁽¹⁾ 9.0	-	⁽¹⁾ 9.1	-
71	Overall capital ratio determined by the Supervisor of Banks	⁽¹⁾ 12.6	-	⁽¹⁾ 12.5	-	⁽¹⁾ 12.6	-
Amounts below the deduction threshold (before the averaging of risk)							
72	Investment in the capital of financial corporations (except for banking corporations and their subsidiary companies) which does not exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	43	-	533	-	479	- 14
73	Investment in Common equity tier 1 of financial corporations (except for banking corporations and their subsidiary companies) which exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold	23	-	22	-	22	- 21
74	Mortgage service rights (net of deferred tax liability)	-	-	-	-	-	-
75	Deferred tax assets arising from timing differences that are below the deduction threshold	1,481	-	1,375	-	1,365	-
Ceiling for inclusion of provisions in tier 2							
76	Provision qualified for inclusion in tier 2 considering exposure under the standard approach, before implementation of the ceiling	1,645	-	1,554	-	1,596	-
77	Upper limit for inclusion of a provision in tier 2 under the standard approach	1,645	-	1,554	-	1,557	-
78	Provision qualified for inclusion in tier 2 considering exposure under the internal ratings-based approach, before implementation of the ceiling	-	-	-	-	-	-
79	Ceiling for inclusion of a provision in tier 2 under the internal ratings-based approach	-	-	-	-	-	-

Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3) (continued)

	September 30, 2016	September 30, 2015	December 31, 2015	
	In NIS million			
	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III	References from stage 2 ⁽²⁾
Common equity tier 1 : instruments and retained earnings				

Capital instruments not qualified as regulatory capital that are subject to the transitional instructions

The present ceiling amount for instruments included in Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)				
80	-	-	-	-
Amount deducted from Common equity tier 1 due to the ceiling				
81	-	-	-	-
The present ceiling amount for instruments included in additional Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)				
82	1,068	-	1,247	-
Amount deducted from additional Common equity tier 1 due to the ceiling				
83	713	-	534	-
The present maximum amount for instruments included in tier 2 capital that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)				
84	3,534	-	4,265	-
Amount deducted from tier 2 capital due to the ceiling				
85	-	-	70	-

Notes:

(1) with an addition of 0.12% (30, September 2015: 0.04% 31, December 2015: 0.06%), in accordance with the additional capital requirements with respect to housing loans – see note 9 to the condensed financial statements.

(2) The references are to the Table "Presentation of components comprising the regulatory capital taken from the regulatory consolidated balance sheet", presented above, to the figure presented under the column "References to components of the regulatory capital".

STATEMENT OF FLOWS OF THE REGULATORY CAPITAL (TABLE 2 D)

Following is a summary of movements and changes in the regulatory capital:

	The third quarter of 2016	The first nine months of 2016	2015
	NIS millions		
Balance at the beginning of period	20,417	20,406	20,994
Common Equity Tier 1 before deductions			
Paid up share capital	7	7	-
Share premium	465	465	-
Retained earnings, including dividends proposed or declared after the balance sheet date	191	752	559
Unrealized income (loss) from adjustments of available-for-sale securities to fair value	(36)	75	(99)
Unrealized income (loss) in respect of cash flow hedging	-	1	3
Translation adjustments of autonomous units held abroad	(74)	(121)	36
Other reserves which received the Supervisor's approval	135	(24)	(132)
Minority interests in the equity of consolidated subsidiaries	9	16	(78)
Total Common Equity Tier 1 before deductions	697	1,171	289
Goodwill and Intangible assets	-	18	-
Deferred taxes the realization of which is based on future profitability of a banking corporation	-	(8)	2
Deferred taxes attributable to timing differences (over 10% of Common Equity Tier 1)	-	(100)	80
Unrealized income (loss) as a result of changes in fair value of liabilities resulting from changes in the Bank's self credit risk	1	1	2
Threshold deductions - the amount exceeding 15 % (in accordance with Section 13 of Directive No. 202)	-	-	(34)
Others	-	-	(26)
Total deductions from Common Equity Tier 1	1	(89)	24
Total Common Equity Tier 1 after deductions	696	1,260	265
transitional instructions in Directive No. 299	-	(179)	(179)
Total Additional Tier 1 Capital after deductions	-	(179)	(179)
Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299	(121)	(519)	(673)
Group allowances for credit losses before related tax effect	64	88	(29)
Total Common Equity Tier 2 before deductions	(57)	(431)	(702)
Deduction in respect of investment in financial corporations mainly in respect of FIBI	-	-	(28)
Total deductions from Tier 2 Capital	-	-	(28)
Total Tier 2 Capital after deductions	(57)	(431)	(674)
Balance at period end	21,056	21,056	20,406

CAPITAL ADEQUACY

For details regarding the evaluation of capital adequacy (Table 3 A), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 19-20).

For details regarding Capital planning process (Table 3 A1), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 20).

RISK ASSETS AND CAPITAL REQUIREMENTS (TABLE 3 B, D, E, F)

	September 30,				December 31	
	2016		2015		2015	
	Risk assets	Capital requirements ⁽¹⁾	Risk assets ⁽²⁾	Capital requirements ⁽¹⁾	Risk assets	Capital requirements ⁽¹⁾
	in NIS millions					
Risk assets and capital requirements in respect of credit risk deriving from exposures of:						
Sovereigns	531	67	1,395	175	305	38
Public sector entities	1,852	234	1,730	217	1,804	227
Banking corporations	2,628	332	3,684	462	2,866	360
Corporations	78,970	9,966	75,433	9,459	76,169	9,567
Secured by commercial real estate	1,533	193	1,476	185	1,555	195
Retail exposures for private individuals	18,650	2,354	⁽²⁾ 16,500	⁽²⁾ 2,069	16,648	2,091
Small business loans	9,360	1,181	⁽²⁾ 8,307	⁽²⁾ 1,042	8,309	1,044
Housing mortgages	13,236	1,670	⁽²⁾ 10,190	⁽²⁾ 1,278	10,951	1,375
Securitization	85	11	96	12	94	12
Other assets	8,906	1,124	8,686	1,089	8,206	1,031
Total risk assets and capital requirements in respect of credit risk	⁽³⁾ 135,751	17,132	127,497	15,988	126,907	15,940
Risk assets and capital requirements in respect of market risk according to the standard approach						
	2,872	362	2,963	372	2,435	306
Risk assets and capital requirements in respect of CVA risk according to the standard approach						
	1,207	152	941	118	788	99
Risk assets and capital requirements in respect of operational risk according to the standard approach						
	12,033	1,519	12,401	1,555	12,330	1,549
Total risk assets and capital requirements	151,863	19,165	143,802	18,033	142,460	17,893

Footnotes:

(1) With an addition of 0.12% (September 30, 2015: 0.04%, 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.

(2) Reclassified – change in the classification of loans for any purpose granted, secured by a mortgage on a residential unit.

(3) The total weighted balances of the risk assets have been reduced by NIS 333 million due to adjustments in respect to the efficiency plan.

CAPITAL FOR CALCULATING RATIO OF CAPITAL (TABLE 3 G)

	September 30,	December 31,	
	2016	2015	2015
	in NIS millions		
Common equity tier 1 after deductions	14,809	13,660	13,549
Additional tier 1 capital after deductions	1,068	1,247	1,247
Tier 1 capital	15,877	14,907	14,796
Tier 2 capital after deductions	5,179	5,819	5,610
Total capital	21,056	20,726	20,406

RATIO OF CAPITAL TO RISK ASSETS (TABLE 3 H AND I)

	September 30,	December 31,	
	2016	2015	2015
	In %		
A. The Bank			
Ratio of common equity tier 1 to risk assets	9.8	9.5	9.5
Ratio of total capital to risk assets	13.9	14.4	14.3
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	⁽⁴⁾ 9.1	⁽⁴⁾ 9.0	⁽⁴⁾ 9.1
Minimum total capital adequacy ratio required by the Supervisor of Banks	⁽⁴⁾ 12.6	⁽⁴⁾ 12.5	⁽⁴⁾ 12.6
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	10.6	10.6	10.6
Ratio of total capital to risk assets	13.6	14.0	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	⁽⁵⁾ 9.1	⁽⁵⁾ 9.0	⁽⁵⁾ 9.1
Minimum total capital adequacy ratio required by the Supervisor of Banks	⁽⁵⁾ 12.6	⁽⁵⁾ 12.5	⁽⁵⁾ 12.6
2. Discount Bakcorp Inc. ⁽¹⁾			
Ratio of common equity tier 1 to risk assets	12.8	12.1	12.8
Ratio of total capital to risk assets	13.9	13.1	13.9
Ratio of minimum common equity tier 1 required in accordance with local regulation	⁽²⁾ 4.5	⁽²⁾ 4.5	⁽²⁾ 4.5
Minimum total capital adequacy ratio required in accordance with local regulation	⁽²⁾ 8.0	⁽²⁾ 8.0	⁽²⁾ 8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	14.3	14.9	13.7
Ratio of total capital to risk assets	15.8	16.9	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	⁽³⁾ 12.5	⁽³⁾ 12.5	⁽³⁾ 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 Bank 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 0.12% (September 30, 2015: 0.04% December 31, 2015 0.06%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.13% (September 30, 2015: 0.04% December 31, 2015 0.06%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

ADDITIONAL INFORMATION REGARDING CAPITAL ADEQUACY NOT INCLUDED IN THE DISCLOSURE REQUIREMENTS OF THE THIRD PILLAR

Risk weighted assets according to Regulatory Operating Segments

	Domestic operations							Total Domestic operations	International operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management		Private Individuals	business operations	Other	total International operations	total
in NIS millions													
For the nine months ended September 30, 2016													
Average Risk-assets ⁽¹⁾	32,855	408	31,894	16,366	25,748	596	15,111	122,978	2,489	21,331	7	23,827	146,805
Balance of Risk-assets ⁽¹⁾	36,052	365	32,843	16,366	26,912	630	14,558	127,726	2,480	21,652	5	24,137	151,863
For the year ended December 31, 2015													
Average Risk-assets ⁽¹⁾	33,549	381	29,041	13,812	25,303	342	14,159	116,587	5,291	20,230	5	25,526	142,113
Balance of Risk-assets ⁽¹⁾⁽²⁾	34,912	472	30,312	14,116	25,086	511	12,906	118,315	2,649	21,479	17	24,145	142,460

Footnotes:

(1) Average balances were computed on the basis of balances at beginning of a quarter or beginning of a month.

(2) Risk weighted assets – as computed for capital adequacy purposes.

A summary of movement and changes in risk-weighted assets

	The third quarter of 2016	The first nine months of 2016	שנת 2015
NIS millions			
Balance at the beginning of period	132,811	127,695	126,716
Change in exposures	-	-	-
Realizations (balance-sheet credit)	4,262	8,903	2,742
Bonds	(149)	(361)	98
Derivatives	(297)	435	(502)
Facilities	350	397	3,463
Guarantees	1,594	1,957	1,053
Other assets	91	821	(1,009)
Total Change in exposures	5,851	12,152	5,846
CCF effect	(959)	(1,230)	(3,325)
Change in exposures after CCF effect	4,892	10,922	2,521
Changes in risk mitigates	-	-	-
Guarantees (replacement)	1,798	3,465	3,827
Financial risk mitigates	(231)	154	(482)
Total	1,567	3,619	3,346
CCF effect	(949)	(1,541)	(2,216)
Change in CVA	(127)	419	(412)
Change in risk mitigates after CCF effect	618	2,078	1,130
Total Change in credit risk-weighted assets	4,147	9,263	979
Balance at period end	136,958	136,958	127,695

LEVERAGE RATIO

COMPARISON BETWEEN BALANCE SHEET ASSETS AND THE MEASUREMENT OF EXPOSURE FOR THE PURPOSE OF THE LEVERAGE RATIO (TABLE 3 A)

	September 30		December 31
	2016	2015	2015
	NIS millions		
Total assets according to the consolidated financial statements	213,451	206,914	205,260
Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes	-	-	-
Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio	-	-	-
Adjustments in respect of derivative financial instruments	(657)	(1,395)	(1,231)
Adjustments in respect of SFTs	1,302	545	661
Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)	21,843	19,659	20,114
Other adjustments	1,162	1,120	1,146
Exposure for the purpose of the leverage ratio	(1)237,101	226,843	225,950

Footnote:

(1) In view of the relief granted by the Supervisor of Banks with respect to the 2016 efficiency plan, the balance of assets does not include the deferred taxes in respect of the efficiency plan.

DISCLOSURE OF THE LEVERAGE RATIO (TABLE 3 B)

	September 30		December 31
	2016	2015	2015
	NIS millions		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	207,636	203,317	201,862
Asset amounts deducted in determining Tier 1 capital	(160)	(244)	(251)
Total on-balance sheet exposures (excluding derivatives and SFTs)	207,476	203,073	201,611
Derivative exposures			
Replacement cost associated with all derivatives transactions	1,301	1,504	999
Add-on amounts for PFE associated with all derivatives transactions	1,305	1,165	1,169
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Reporting to the Public Directives	--	--	--
Deductions of receivables assets for cash variation margin provided in derivatives transactions	--	(279)	(163)
Exempted CCP leg of client-cleared trade exposures	--	--	--
Adjusted effective notional amount of written credit derivatives	--	--	--
Adjusted effective notional offsets and add-on deductions for written credit derivatives	--	--	--
Total derivative exposures	2,606	2,390	2,005
Securities financing transaction exposures			
Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale	3,874	1,176	1,559
Netted amounts of cash payables and cash receivables of gross SFT assets	--	--	--
Credit risk exposure of a central counterparty for SFT assets	1,302	545	661
Agent transaction exposures	--	--	--
Total securities financing transaction exposures	5,176	1,721	2,220
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	73,827	68,443	70,294
Adjustments for conversion to credit equivalent amounts	(51,984)	(48,784)	(50,180)
Total off-balance sheet items	21,843	19,659	20,114
Capital and total exposures			
Tier 1 capital	⁽¹⁾ 15,877	14,907	14,796
Total exposures	⁽¹⁾ 237,101	226,843	225,950
Leverage ratio			
Leverage ratio according to Proper Conduct of Banking Business Directive No. 218	6.7	6.6	6.5

Footnote:

(1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks in respect of the 2016 efficiency plan.

EXPOSURE TO RISKS AND RISK MANAGEMENT

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see the 2015 Annual Report, in Chapter C to the Directors and Management Report - "Risks review" (pp. 84-85 and pp. 123-126).

For an additional qualitative general disclosure regarding risk management, (including risk management principles – pp. 26-28, risk management corporate governance – pp. 28-32, risk management tools – pp. 32-33, risk culture and absorption of the usefulness of risk management procedures – pp. 33-36) see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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.

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).

DRAFTS AND INSTRUCTIONS PUBLISHED DURING THE SECOND QUARTER OF 2016

Prohibition of Money Laundering Act (Amendment No. 14), from July 2016, in the matter of expansion of the list of predicate offences and the addition of tax offences under different Acts (VAT, Land Taxation and the Income Tax Ordinance). For additional details, see "Legislation and Supervision" in the Directors' and Management's Report.

Proper Conduct of Banking Business Directive in the matter of online banking. The Directive, published in July 2016, comprises a material change in the approach of the Supervisor of Banks aimed at the removal of existing barriers regarding the continued development of digital banking and allowing flexibility as regards the implementation of new technologies. The Directive stresses the need to establish risk management in this matter. The Directive shall become effective on January 1, 2017. For additional details, see "Legislation and Supervision" in the Directors' and Management's Report.

Amendment of Proper Conduct of Banking Business Directive No. 315 in the matter of "additional provision for doubtful debts". See "Construction and real estate activity" under "Large business segment (domestic operations) – additional details" in the Directors and Management Report.

CREDIT RISK

Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.

For general details and for qualitative disclosure regarding credit risk management, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 46-56).

CREDIT RISK MITIGATION

For details regarding qualitative disclosure regarding credit risk mitigation, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 43-45).

CREDIT RISK MITIGATION (TABLE 7)

	Gross credit exposure before allowance for credit losses ⁽¹⁾⁽²⁾	Gross credit exposure after allowance for credit losses ⁽¹⁾⁽²⁾	Credit exposure covered by eligible financial collateral ⁽³⁾⁽⁴⁾	Total amounts subtracted ⁽⁵⁾	Total amounts added ⁽⁵⁾	Net credit exposure
in NIS millions						
September 30, 2016						
Sovereigns debts	47,670	47,669	(10)	(170)	141	47,630
Public sector entities debts	7,467	7,465	(1)	(124)	434	7,774
Banking corporations debts	5,827	5,826	(59)	(183)	8,132	13,716
Corporations debts	114,608	114,604	(7,393)	(9,846)	9,082	106,447
Secured by commercial real estate debts	1,745	1,739	(208)	-	-	1,531
Retail exposures for private individuals	51,442	51,164	(1,613)	(7,452)	-	42,099
Small business loans	18,972	18,784	(2,774)	(14)	-	15,996
Housing mortgages	27,117	26,877	-	-	-	26,877
Securitization	406	406	-	-	-	406
Other assets	9,479	9,479	-	-	-	9,479
Total	284,733	284,013	(12,058)	(17,789)	17,789	271,955
September 30, 2015						
Sovereigns debts	51,877	51,876	-	-	⁽⁷⁾ 150	52,026
Public sector entities debts	7,514	7,511	-	(120)	⁽⁷⁾ 232	7,623
Banking corporations debts	9,338	9,335	(264)	(232)	7,827	16,666
Corporations debts	105,149	105,113	(5,245)	(5,278)	4,631	99,221
Secured by commercial real estate debts	1,780	1,774	(302)	-	-	1,472
Retail exposures for private individuals	⁽⁶⁾ 46,803	⁽⁶⁾ 46,512	(1,572)	(7,204)	-	37,736
Small business loans	⁽⁶⁾ 17,248	⁽⁶⁾ 17,068	(2,768)	(6)	-	14,294
Housing mortgages	⁽⁶⁾ 22,401	⁽⁶⁾ 22,182	-	-	-	22,182
Securitization	451	451	-	-	-	451
Other assets	9,718	9,718	-	-	-	9,718
Total	272,279	271,540	(10,151)	(12,840)	12,840	261,389
December 31, 2015						
Sovereigns debts	51,262	51,262	-	-	⁽⁷⁾ 140	51,402
Public sector entities debts	7,844	7,841	-	(121)	⁽⁷⁾ 372	8,092
Banking corporations debts	6,800	6,798	(147)	(282)	7,879	14,248
Corporations debts	107,904	107,817	(6,060)	(5,707)	4,975	101,025
Secured by commercial real estate debts	1,816	1,809	(258)	-	-	1,551
Retail exposures for private individuals	47,546	47,253	(1,733)	(7,249)	-	38,271
Small business loans	17,276	17,092	(2,766)	(7)	-	14,319
Housing mortgages	23,517	23,301	-	-	-	23,301
Securitization	445	445	-	-	-	445
Other assets	8,894	8,894	-	-	-	8,894
Total	273,304	272,512	(10,964)	(13,366)	13,366	261,548

ADDITIONAL DISCLOSURES

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK (TABLE 4 B)

Segmentation of credit risk according to main credit exposure types

Gross credit risk exposure

	September 30, 2016	Average for the period ⁽¹⁾	September 30, 2015	Average for the period ⁽¹⁾	December 31, 2015	Average for the period ⁽¹⁾
in NIS millions						
Credit	165,719	160,626	155,350	157,460	157,265	156,293
Bonds	33,497	33,993	36,247	34,528	34,740	35,278
Others ⁽²⁾	9,479	9,084	9,718	9,074	8,894	9,140
Guarantees and other liabilities on account of clients ⁽³⁾	73,432	72,011	68,295	65,302	70,237	67,092
Transactions in derivative financial instruments ⁽⁴⁾	2,606	2,623	2,669	2,806	2,168	2,594
Total	284,733	278,337	272,279	269,170	273,304	270,397

Footnotes:

(1) The average is computed on a quarterly basis.

(2) Primarily: cash, shares, fixed assets.

(3) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(4) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

Distribution of exposures according to main geographical areas and problematic debts according to main geographical areas

Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
				Net Accounting Periodic Write-Offs Balance of Credit Recognized Allowance Loss during the Period for Credit						
	Credit Performance Rating ⁽⁶⁾	Problematic ⁽⁵⁾		Of which: Total Debts ⁽²⁾⁽⁷⁾	Problematic ⁽⁵⁾	Impaired Expenses				
Total										
in NIS millions										
September 30, 2016										
Lending Activity in Israel										
Total Commercial	98,168	92,359	3,565	95,851	66,476	3,522	2,151	34	(38)	1,428
Total Public	175,708	133,253	4,266	173,381	117,118	4,224	2,205	175	74	2,026
Total Lending Activity in Israel	201,831	159,261	4,266	176,269	118,559	4,224	2,205	174	74	2,026
Lending Activity Outside of Israel										
Total Commercial	43,431	42,328	774	31,731	22,802	760	431	72	61	320
Total Public	45,594	44,482	778	33,889	24,372	764	431	72	61	334
Total Lending Activity Outside of Israel	54,025	52,807	869	38,627	28,872	764	431	71	61	335
Total	255,856	212,068	5,135	214,896	147,431	4,988	2,636	245	135	2,361

Distribution of exposures according to main geographical areas and problematic debts according to main geographical areas (continued)

Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
				Net Accounting						
				Periodic Credit Loss						
				Write-Offs Recognized during the Period						
				Balance of Allowance for Credit Losses						
Total	Credit Performance Rating ⁽⁶⁾	Problematic ⁽⁵⁾		Total	Of which: Debts ⁽²⁾⁽⁷⁾	Problematic ⁽⁵⁾	Impaired	Expenses		
in NIS millions										
September 30, 2015										
Lending Activity in Israel										
Total Commercial	89,441	84,368	3,764	86,900	59,080	3,746	2,574	59	(13)	1,312
Total Public	157,144	150,881	4,488	154,580	102,381	4,470	2,643	103	128	1,871
Total Lending Activity in Israel	183,010	176,542	4,488	157,180	103,477	4,470	2,643	103	128	1,872
Lending Activity Outside of Israel										
Total Commercial	41,548	39,942	796	30,397	21,640	747	415	(10)	(10)	307
Total Public	43,911	42,238	805	32,755	23,220	756	420	(12)	(12)	325
Total Lending Activity Outside of Israel	53,908	52,228	1,150	37,154	27,472	756	420	(14)	(12)	327
Total	236,918	228,770	5,638	194,334	130,949	5,226	3,063	89	116	2,199
December 31, 2015										
Lending Activity in Israel										
Total Commercial	90,859	85,567	3,518	89,085	61,394	3,492	2,416	129	12	1,354
Total Public	160,367	153,785	4,231	158,574	105,662	4,205	2,480	208	179	1,922
Total Lending Activity in Israel	185,127	178,543	4,231	161,130	106,569	4,205	2,480	208	179	1,923
Lending Activity Outside of Israel										
Total Commercial	43,950	42,513	884	31,947	22,074	838	539	(14)	(26)	321
Total Public	46,235	44,785	890	34,229	23,606	844	539	(19)	(28)	336
Total Lending Activity 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

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 147,431, 36,543, 177, 3,243, 68,462 million, respectively. (As at 30.9.2015 amount of NIS 130,949, 37,928, 173, 3,761, 64,107 million, respectively and As at 31.12.2015 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) 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.
- (7) The balance of commercial debts includes housing loans in the amount of NIS 253 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 at 30.9.2015 amount of NIS 212 million, As at 31.12.2015 amount of NIS 236 million).

Distribution of the exposure according to counterparty, classified according to main types of credit exposure (Table 4 H)

	Credit	Bonds	Other ⁽¹⁾	Guarantees and other liabilities on account of clients ⁽²⁾	Transactions in derivative financial instruments ⁽³⁾	Total
in NIS millions						
September 30, 2016						
Sovereigns	20,473	25,874	-	1,295	28	47,670
Public sector entities	2,409	3,970	-	848	240	7,467
Banking corporations	3,382	1,202	-	349	894	5,827
Corporations	72,686	2,023	-	38,487	1,412	114,608
Secured by commercial real estate	1,745	-	-	-	-	1,745
Retail exposures for private individuals	26,037	22	-	25,357	26	51,442
Small business loans	13,883	-	-	5,085	4	18,972
Housing mortgages	25,104	-	-	2,011	2	27,117
Securitization	-	406	-	-	-	406
Other assets	-	-	9,479	-	-	9,479
Total	165,719	33,497	9,479	73,432	2,606	284,733
September 30, 2015						
Sovereigns	23,427	27,227	-	1,203	20	51,877
Public sector entities	2,088	4,792	-	535	99	7,514
Banking corporations	5,108	2,710	-	344	1,176	9,338
Corporations	66,226	1,067	-	36,552	1,304	105,149
Secured by commercial real estate	1,780	-	-	-	-	1,780
Retail exposures for private individuals	⁽⁴⁾ 23,114	-	-	23,624	65	46,803
Small business loans	⁽⁴⁾ 12,530	-	-	4,715	3	17,248
Housing mortgages	⁽⁴⁾ 21,077	-	-	1,322	2	22,401
Securitization	-	451	-	-	-	451
Other assets	-	-	9,718	-	-	9,718
Total	155,350	36,247	9,718	68,295	2,669	272,279
December 31, 2015						
Sovereigns	24,052	25,942	-	1,260	8	51,262
Public sector entities	2,305	4,625	-	804	110	7,844
Banking corporations	3,137	2,186	-	420	1,057	6,800
Corporations	68,023	1,542	-	37,377	962	107,904
Secured by commercial real estate	1,816	-	-	-	-	1,816
Retail exposures for private individuals	23,540	-	-	23,980	26	47,546
Small business loans	12,546	-	-	4,727	3	17,276
Housing mortgages	21,846	-	-	1,669	2	23,517
Securitization	-	445	-	-	-	445
Other assets	-	-	8,894	-	-	8,894
Total	157,265	34,740	8,894	70,237	2,168	273,304

Footnotes:

(1) Mostly cash, shares, fixed assets.

(2) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(3) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (following the netting effect and after multiplication by the "add-on" coefficient).

(4) Reclassified – change in the classification of loans for any purpose granted, secured by a mortgage on a residential unit.

Division of the portfolio according to remaining contractual maturity periods(1) (Table 4 E)

	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	No fixed maturity date ⁽²⁾	Total Cash Flow
in NIS millions					
September 30, 2016					
Credit	90,168	52,899	35,026	2,714	180,807
Bonds	6,630	15,381	20,089	-	42,100
Others ⁽³⁾	3,613	504	651	4,740	9,508
Guarantees and other liabilities on account of clients ⁽⁴⁾	49,709	16,750	5,704	1,221	73,384
Transactions in derivative financial instruments ⁽⁵⁾	2,011	1,682	456	116	4,265
Total	152,131	87,216	61,926	8,791	310,064
September 30, 2015					
Credit	89,386	46,628	28,790	2,131	166,935
Bonds	9,382	16,515	20,634	-	46,531
Others ⁽³⁾	3,999	530	699	4,557	9,785
Guarantees and other liabilities on account of clients ⁽⁴⁾	47,508	14,896	4,888	920	68,212
Transactions in derivative financial instruments ⁽⁵⁾	1,930	1,923	436	216	4,505
Total	152,205	80,492	55,447	7,824	295,968
December 31, 2015					
Credit	89,304	48,417	29,562	1,963	169,246
Bonds	7,587	16,682	19,855	-	44,124
Others ⁽³⁾	3,244	603	640	4,439	8,926
Guarantees and other liabilities on account of clients ⁽⁴⁾	48,542	15,426	5,149	983	70,100
Transactions in derivative financial instruments ⁽⁵⁾	1,391	1,714	462	219	3,786
Total	150,068	82,842	55,668	7,604	296,182

Footnotes:

- (1) This note presents the anticipated future contractual cash flows in respect of the exposures, according to the remaining periods to the contractual maturity date of each cash flow. The data is shown net of the allowance for credit losses, the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.
- (2) Including assets whose maturity data has passed in the amount of NIS 450 million (Sep 30, 2015: NIS 609 million, December 31, 2015: NIS 551 million).
- (3) Primarily: cash, shares, fixed assets.
- (4) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).
- (5) Presented as calculated for the purpose of limitation on borrowings indebtedness.

Distribution of the exposures according to main sectors

Economic Sectors	September 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	19,286	604	3.1	20,551	368	1.8
Construction and real estate - construction	21,211	478	2.3	16,480	408	2.5
Construction and real estate - real estate activity	19,660	493	2.5	21,142	958	4.5
Commerce	26,618	1,214	4.6	24,549	938	3.8
Financial services	21,124	177	0.8	19,781	219	1.1
Private individuals - housing loans	27,238	316	1.2	23,492	360	1.5
Private individuals - other	52,465	389	0.7	48,301	359	0.7
Other Sectors	33,700	1,373	4.1	32,306	1,511	4.7
Total Public	221,302	5,044	2.3	206,602	5,121	2.5
Banks	9,067	91	1.0	10,735	102	1.0
Governments	25,487	-	-	25,176	27	0.1
Total	255,856	5,135	2.0	242,513	5,250	2.2

Change in the balance of allowance for credit losses (Table 4 H)

	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
		In NIS millions				
Nine months ended September 30, 2016						
Balance of allowance for credit losses, as at December 31, 2015 (audited)	1,675	176	407	2,258	3	2,261
Expenses (expenses reversal) for credit loss	106	6	135	247	(2)	245
Accounting write-offs	(247)	(17)	(232)	(496)	-	(496)
Collection of debts written-off in previous years	224	-	137	361	-	361
Net accounting write-offs	(23)	(17)	(95)	(135)	-	(135)
Financial statements translation adjustments	(10)	-	-	(10)	-	(10)
Balance of allowance for credit losses, as at September 30, 2016	1,748	165	447	2,360	1	2,361
Of which: In respect of off-balance sheet credit instruments	153	-	32	185	-	185
Nine months ended September 30, 2015						
Balance of allowance for credit losses, as at December 31, 2014 (audited)	1,545	263	411	2,219	5	2,224
Expenses (expenses reversal) for credit loss	49	4	38	91	(2)	89
Accounting write-offs	(289)	(92)	(194)	(575)	-	(575)
Collection of debts written-off in previous years	312	-	147	459	-	459
Net accounting write-offs	23	(92)	(47)	(116)	-	(116)
Financial statements translation adjustments	2	-	-	2	-	2
Balance of allowance for credit losses, as at September 30, 2015	1,619	175	402	2,196	3	2,199
Of which: In respect of off-balance sheet credit instruments	152	1	34	187	-	187

Exposure amounts according to risk weights⁽²⁾⁽¹⁾ (Table 5)**Amount of exposure after allowance for credit losses and before credit risk mitigation**

	0%	20%	35%	50%	75%	100%	150%	250%	Total
in NIS millions									
September 30, 2016									
Sovereigns	45,178	2,221	-	9	-	261	-	-	47,669
Public sector entities	-	5,418	-	2,029	-	18	-	-	7,465
Banking corporations	-	4,890	-	786	-	150	-	-	5,826
Corporations	-	2,223	-	599	-	110,404	1,378	-	114,604
Commercial real estate	-	-	-	-	-	1,735	4	-	1,739
Retail exposures for private individuals	-	-	-	-	50,862	155	147	-	51,164
Small business loans	-	-	-	-	18,554	56	174	-	18,784
Housing mortgages	-	-	11,701	5,621	8,930	569	56	-	26,877
Securitization	-	394	-	12	-	-	-	-	406
Other	3,115	127	-	-	-	3,534	1,079	1,624	9,479
Total	48,293	15,273	11,701	9,056	78,346	116,882	2,838	1,624	284,013
September 30, 2015									
Sovereigns	48,137	1,582	-	2,156	-	1	-	-	51,876
Public sector entities	-	5,948	-	1,552	-	7	4	-	7,511
Banking corporations	-	7,235	-	1,571	-	529	-	-	9,335
Corporations	-	899	-	349	-	102,171	1,694	-	105,113
Commercial real estate	-	-	-	-	-	1,765	9	-	1,774
Retail exposures for private individuals	-	-	-	-	(3)46,217	(3)138	(3)157	-	46,512
Small business loans	-	-	-	-	(3)16,789	81	(3)198	-	17,068
Housing mortgages	-	-	12,669	2,909	(3)6,017	(3)521	(3)66	-	22,182
Securitization	-	433	-	18	-	-	-	-	451
Other	3,298	124	-	-	-	4,008	890	1,398	9,718
Total	51,435	16,221	12,669	8,555	69,023	109,221	3,018	1,398	271,540
December 31, 2015									
Sovereigns	49,757	1,490	-	14	-	1	-	-	51,262
Public sector entities	-	5,939	-	1,894	-	8	-	-	7,841
Banking corporations	-	5,415	-	1,217	-	166	-	-	6,798
Corporations	-	1,517	-	509	-	104,194	1,597	-	107,817
Commercial real estate	-	-	-	-	-	1,802	7	-	1,809
Retail exposures for private individuals	-	-	-	-	46,997	105	151	-	47,253
Small business loans	-	-	-	-	16,857	73	162	-	17,092
Housing mortgages	-	-	12,240	3,771	6,771	450	69	-	23,301
Securitization	-	427	-	18	-	-	-	-	445
Other	2,984	83	-	-	-	3,585	856	1,386	8,894
Total	52,741	14,871	12,240	7,423	70,625	110,384	2,842	1,386	272,512

Amount of exposure after allowance for credit losses and after credit risk mitigation

	0%	20%	35%	50%	75%	100%	150%	250%	Total
in NIS millions									
September 30, 2016									
Sovereigns	45,319	2,214	-	9	-	88	-	-	47,630
Public sector entities	434	5,417	-	1,905	-	18	-	-	7,774
Banking corporations	-	6,621	-	6,959	-	136	-	-	13,716
Corporations	-	11,155	-	750	-	93,171	1,371	-	106,447
Commercial real estate	-	-	-	-	-	1,527	4	-	1,531
Retail exposures for private individuals	-	-	-	-	41,829	129	141	-	42,099
Small business loans	-	-	-	-	15,790	46	160	-	15,996
Housing mortgages	-	-	11,701	5,621	8,930	569	56	-	26,877
Securitization	-	394	-	12	-	-	-	-	406
Other	3,115	127	-	-	-	3,534	1,079	1,624	9,479
Total	48,868	25,928	11,701	15,256	66,549	99,218	2,811	1,624	271,955
September 30, 2015									
Sovereigns	⁽⁴⁾ 48,287	1,582	-	2,156	-	1	-	-	52,026
Public sector entities	⁽⁴⁾ 232	5,948	-	1,432	-	7	4	-	7,623
Banking corporations	-	8,615	-	7,533	-	518	-	-	16,666
Corporations	-	5,530	-	349	-	91,848	1,494	-	99,221
Commercial real estate	-	-	-	-	-	1,463	9	-	1,472
Retail exposures for private individuals	-	-	-	-	⁽³⁾ 37,476	⁽³⁾ 109	⁽³⁾ 151	-	37,736
Small business loans	-	-	-	-	⁽³⁾ 14,044	70	⁽³⁾ 180	-	14,294
Housing mortgages	-	-	12,669	2,909	⁽³⁾ 6,017	⁽³⁾ 521	⁽³⁾ 66	-	22,182
Securitization	-	433	-	18	-	-	-	-	451
Other	3,298	124	-	-	-	4,008	890	1,398	9,718
Total	51,817	22,232	12,669	14,397	57,537	98,545	2,794	1,398	261,389
December 31, 2015									
Sovereigns	⁽⁴⁾ 49,897	1,490	-	14	-	1	-	-	51,402
Public sector entities	⁽⁴⁾ 372	5,939	-	1,773	-	8	-	-	8,092
Banking corporations	-	6,803	-	7,291	-	154	-	-	14,248
Corporations	-	6,492	-	509	-	92,441	1,583	-	101,025
Commercial real estate	-	-	-	-	-	1,544	7	-	1,551
Retail exposures for private individuals	-	-	-	-	38,058	76	137	-	38,271
Small business loans	-	-	-	-	14,114	60	145	-	14,319
Housing mortgages	-	-	12,240	3,771	6,771	450	69	-	23,301
Securitization	-	427	-	18	-	-	-	-	445
Other	2,984	83	-	-	-	3,585	856	1,386	8,894
Total	53,253	21,234	12,240	13,376	58,943	98,319	2,797	1,386	261,548

Footnotes:

- (1) Off balance sheet credit risk is started prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
- (2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).
- (3) Reclassified – change in the classification of loans for any purpose granted, secured by a mortgage on a residential unit.
- (4) Reclassified – The reclassification of credit exposure backed by insurance from the "Sovereigns" item to the "Public sector entities" item.

General disclosure regarding exposure related to counterparty credit risk

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction. For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. pp. 52-53.

Disclosure regarding derivatives (Table 8)

	September 30,		December 31
	2016	2015	2015
	in NIS millions		
Gross positive fair value of contracts ⁽¹⁾			
Interest rate contracts:			
Shekel/CPI	177	113	168
Other	1,893	2,117	1,809
Foreign currency contracts	1,038	1,306	1,000
Contracts on shares	157	248	259
Commodities and other contracts	-	1	-
Total Gross positive fair value of contracts	3,265	3,785	3,236
Potential off balance sheet exposure ⁽²⁾	2,251	2,069	2,002
Netting benefits	(2,910)	(3,185)	(3,070)
Current credit exposure after netting ⁽²⁾	2,606	2,669	2,168
Held collateral	(264)	(392)	(264)
Net credit exposure in respect of derivatives	2,342	2,277	1,904

Footnotes:

- (1) Including embedded derivatives in the amount of NIS 23 million (December 31, 2015 NIS 28 million, September 30, 2015 NIS 23 million).
- (2) Potential off-balance sheet credit exposure with respect to derivative instruments is calculated based on the notional principal amount of the entire counter-party portfolio, multiplied by the "Add-on" coefficient.

Activity in Derivative Financial Instruments

The Bank's operations in derivative financial instruments involve special risk factors, including credit risk. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein. For further details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 54).

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis.

Appendix 5 contains further details of the data presented in the said Part B of the Note.

Securitization exposure

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS).

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 55).

Securitization exposure (Table 9)

The securitization exposure included in the following table does not include mortgage backed securities issued by agencies (GNMA, FNMA and FHLMC). This, due to the fact that all layers of the said securities reflect identical credit risk.

Securitization exposure

	Total exposure		
	September 30		December 31
	2016	2015	2015
	in NIS millions		
Mortgage-backed securities (MBS):			
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS)	31	59	56
Total mortgage-backed securities	31	59	56
Asset-backed securities (ABS):			
Collateralized bonds CLO	375	392	389
Total asset-backed securities	375	392	389
Total mortgage and asset-backed securities	406	451	445

	September 30		December 31	
	2016	2015	2015	2015
	Capital Exposure requirements	Capital Exposure requirements	Capital Exposure requirements	Capital Exposure requirements
	12.6%	12.5%	12.5%	12.6%
	in NIS millions			
Risk weights:				
20%	394	10	433	11
50%	12	1	18	1
Total	406	11	451	12

Additional disclosure regarding credit risk in respect of significant exposure to groups of borrowers

The banking corporations are required to include in their reports, information regarding the existing credit risk at the reporting date with respect to groups of borrowers, the net indebtedness of whom, on a consolidated basis, after the permitted deductions according to Section 5 of Proper Conduct of Banking Business Directive No. 313, exceeds 15% of the equity of the banking corporation.

The Bank maintains a continuous monitoring process over the large borrowers groups, performs periodic reviews assessing the risk attributed to each group, and as regards certain of the groups, even performs an examination of the stress tests and their effect on the repayment ability. The Bank complies with all regulatory restrictions relating to concentration of borrowers and groups of borrowers.

Additional details regarding the credit risks – including: quality of the credit and problematic credit risk, the total credit risk by economic sectors; exposure to foreign countries; credit exposure to foreign financial institutions; credit risks in housing loans; credit risk in respect of leveraged finance – presented in Chapter C of the Directors and Management Report regarding "Risks review" and in Note 14 to the condensed financial statements as of September 30, 2016.

Exposure to commercial mortgage backed securities (CMBS)

IDB New York holds commercial mortgage backed securities (CMBS) with a total balance sheet exposure of NIS 30 million as of September 30, 2016, compared with NIS 56 million on December 31, 2015, a decrease of 46.4%. The said reduction resulted from redemption of securities during the period. These securities are classified to the financial services sector. The collateral pertaining to these securities is all located in the United States.

As of September 30, 2016, there is no provision for impairment of value due to the said securities.

The securitization exposure included in the following table does not include mortgage backed securities of the U.S. government agencies (GNMA, FNMA and FHLMC) due to the fact that all layers of the said securities reflect identical credit risk.

Details regarding CMBS Exposure

Maturity Date	As at September 30, 2016			As at December 31, 2015		
	Adjusted cost	Fair Value	Book Value	Adjusted cost	Fair Value	Book Value
in NIS millions						
2040	6	7	6	7	8	7
2047	3	3	3	5	5	5
2049-2051	22	22	21	45	48	44
Total	31	32	30	57	61	56

MARKET RISKS

Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets and in fluctuations of these market risk factors which have an effect on the accounting or economic value of the Bank's assets and liabilities, (balance-sheet and off-balance-sheet) and which includes several sub-risks, as detailed below:

Interest risk – risk applying to profits or to the capital stemming from fluctuations in interest rates:

- Return graph risk - the risk arises when unexpected fluctuations in the return graph adversely affect the economic or accounting value of the capital. These fluctuations stem from changes in the relation between interest rates for different maturity dates;
- Risk of renewed pricing – a risk stemming from timing differences between maturity periods (at fixed interest rates) and the dates of renewed pricing (at variable interest rates) of assets, liabilities and off-balance sheet positions. This risk includes also the spread risk stemming from changes in spreads between riskless interest graphs and interest rates used for the pricing of assets and liabilities;
- Interest base risk – the risk stemming from an imperfect correlation of changes in interest rates serving as a basis for the pricing of different assets and liabilities on the financial markets;
- Optional risk – a change in timing or scope of cash flows produced by a financial instrument following changes in market interest rates and its fluctuations.

Linkage base risk – The risk of impairment to the economic or accounting value of the capital that might occur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and the value of liabilities including the off-balance-sheet activity;

Shares, commodities and nonfinancial investments risk – the risk of impairment in the value of the Bank and its profitability stemming from changes in prices of shares, commodities and in the value of nonfinancial investments;

Options risk – the risk of a loss stemming from changes in parameters affecting the value of options, including inherent options and derivative financial instruments, while taking into account the fluctuations in prices of underlying assets.

Market risks are presented in this review on a Group basis, including the Bank, Mercantile Discount Bank, IDB New York, ICC and the severance pay fund for the Bank's employees (hereunder in this section: "the Group"). The other group companies do not have material exposure to market risk.

QUANTITATIVE DISCLOSURE

(1) INTEREST RISK EXPOSURE

A. General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. Management of interest risk exposure is performed for each of the linkage segments separately.

B. Sensitivity analysis to the effect of changes in interest rate based on the fair value of financial instruments

Fair value of financial instruments. Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date.

Evaluating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity, neither do they include the tax effect.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material):

deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements as of December 31, 2015 (p. 340).

Following are certain updates as of September 30, 2016:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 18 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 0.4 million (compared to NIS 22 million and NIS 1 million, respectively, as of June 30, 2016);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 4.12 years on September 30, 2016, compared to 3.67 years, taking into consideration the forecast for early redemptions (compared to 4.15 years and 3.68 years, respectively, as of June 30, 2016);
- Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 57 million (compared to NIS 62 million at June 30, 2016);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.10 years on September 30, 2016, compared to 2.9 years, taking into consideration the forecast for early redemption (compared to 3.21 years and 2.99 years, respectively, as of June 30, 2016).

Fair value of the Bank and its consolidated subsidiaries' financial instruments, excluding non-monetary items (before the effect of hypothetical changes in interest rate)

	Israeli currency		Foreign currency ⁽²⁾			
	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions					
	September 30, 2016					
Financial assets ⁽¹⁾	131,510	20,923	46,950	3,235	1,685	204,303
Amounts receivable in respect of derivative and off balance sheet financial instruments ⁽³⁾	71,480	4,899	84,944	16,098	11,766	189,187
Financial liabilities ⁽¹⁾	(113,934)	(13,527)	(55,382)	(7,090)	(2,544)	(192,477)
Amounts payable in respect of derivative and off balance sheet financial instruments ⁽³⁾	(84,741)	(8,539)	(73,330)	(12,191)	(11,006)	(189,807)
Net fair value of financial instruments	4,315	3,756	3,182	52	(99)	11,206
	December 31, 2015					
Financial assets ⁽¹⁾	123,419	19,834	48,466	3,602	1,976	197,297
Amounts receivable in respect of derivative and off balance sheet financial instruments ⁽³⁾	79,494	4,303	73,231	15,559	6,460	179,047
Financial liabilities ⁽¹⁾	(107,370)	(15,204)	(53,589)	(7,818)	(2,952)	(186,933)
Amounts payable in respect of derivative and off balance sheet financial instruments ⁽³⁾	(90,311)	(6,705)	(65,287)	(11,437)	(5,598)	(179,338)
Net fair value of financial instruments	5,232	2,228	2,821	(94)	(114)	10,073

For footnotes see next page.

Effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-monetary items

Net fair value of financial instruments, after the effect of changes in interest rate ⁽⁴⁾							Change in fair value		
	Israeli currency		Foreign currency ⁽²⁾						
	Non-linked	CPI linked	US dollar	Euro	Other	Offsetting effects	Total	Total	Total
Change in interest rate									
	in NIS millions								in %
	September 30, 2016								
Immediate parallel increase of 1%	4,002	3,512	2,878	37	(100)	(26)	10,303	(903)	(8%)
Immediate parallel increase of 0.1%	4,276	3,731	3,149	52	(99)	-	11,109	(97)	(1%)
Immediate parallel decrease of 1%	4,998	4,060	3,322	88	(94)	(27)	12,347	1,141	10%
	December 31, 2015								
Immediate parallel increase of 1%	4,987	2,086	2,386	(93)	(115)	(17)	9,234	(839)	(8%)
Immediate parallel increase of 0.1%	5,212	2,218	2,734	(94)	(113)	-	9,957	(116)	(1%)
Immediate parallel decrease of 1%	5,678	2,418	3,128	(79)	(110)	(18)	11,017	944	9%

Footnotes:

- (1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.
- (2) Including Israeli currency linked to foreign currency.
- (3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 16 to the condensed financial statements.
- (4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

Summary of the Bank's and its consolidated subsidiaries' exposure to fluctuations in interest rates, including the internal rate of return (IRR) and the average maturity, as per the various linkage segments including assumptions regarding early repayments

	As at September 30, 2016			As at December 31, 2015		
	Shekels		Foreign currency and foreign currency linked	Shekels		Foreign currency and foreign currency linked
	Non-linked	CPI linked		Non-linked	CPI linked	
	In NIS millions					
Total Assets	202,990	25,822	164,678	202,913	24,137	149,294
Total Liabilities	198,675	22,066	161,543	197,681	21,909	146,681
Average maturity (years):						
Assets	0.89	3.67	1.02	0.81	3.52	1.07
Liabilities	0.73	2.90	0.83	0.66	3.03	0.78
Average maturity gap	0.16	0.77	0.19	0.15	0.49	0.29
IRR gap	2.73	1.23	1.61	2.38	0.57	1.70

C. Sensitivity analysis according to data used for interest exposure management (hereinafter: "economic exposure")

The data presented in item "B" above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks.

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:

- (a) The distribution of deposits with no maturity date is made only in computing the economic exposure;
- (b) Liability for employee rights are included in the economic calculation and are not included in the calculation on a fair value basis;
- (c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
- (d) Commitments to grant future credit to customers at fixed interest rates are included in economic exposure, but are not included in the fair value exposure;
- (e) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
- (f) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.;
- (g) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.

Details of the effect of hypothetical changes in interest rates of 100 base points on the Group's economic value

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
In NIS millions					
For the nine months ended September 30, 2016					
An increase of 100BP in interest rates	(195)	11	70	4	(109)
A decrease of 100BP in interest rates	244	(3)	(400)	1	(158)
For the year ended December 31, 2015					
An increase of 100BP in interest rates	(140)	141	(81)	10	(69)
A decrease of 100BP in interest rates	188	(148)	(87)	(4)	(51)

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

RELATION BETWEEN BALANCE SHEET ITEMS AND THE POSITIONS INCLUDED IN THE DISCLOSURE OF MARKET RISK

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held by the "Nostro" unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

Risk indices used for the management of market risk in the trading portfolio include VaR, stress tests and limitations on specific operations, such as: limitations in scenario terms on interest rate risks, limitations in "Greek" terms on transactions in options, etc.

The risk indices used for market risk management relating to the banking book, are presented in details in the item regarding additional information as to exposure to market risks, above.

Relation between balance sheet items and the positions included in the disclosure of market risk

Assets	Affect of 100 BP for end of quarter	Affect of 100 BP for end of reporting year	Liabilities	Affect of 100 BP for end of quarter	Affect of 100 BP for end of reporting year
	September 30, 2016	December 31, 2015		September 30, 2016	December 31, 2015
In NIS millions					
Credit	1,357	1,246	Deposits	750	667
Available-for-sale securities portfolio	953	878	Debt notes	310	361
Trading securities portfolio	71	37	Off balance-sheet	334	312
Held-to-maturity securities portfolio	160	202	Current account spreading	784	699
Off balance-sheet	-	-	Employees rights	315	302
Other	60	48	Other	-	2
Total	2,603	2,411	Total	2,494	2,343

D. The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and includes the Bank's activity in the granting of credit, in the purchase of securities and in attracting deposits and the issuance of capital notes. Such activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk propensity.

Details of the effect of parallel changes of 100 base points in the interest rate applying to the banking book

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
In NIS millions					
For the nine months ended September 30, 2016					
An increase of 100BP in interest rates	(182)	24	102	2	(55)
A decrease of 100BP in interest rates	274	(16)	(428)	()	(171)
December 31, 2015					
An increase of 100BP in interest rates	(112)	121	(90)	10	(71)
A decrease of 100BP in interest rates	156	(127)	(79)	(4)	(54)

For details regarding models and risk indices, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 66-70).

Principal indices for management

Index for the sensitivity of economic value to changes in interest rates. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 66).

Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)

	For the period ended on			
	September 30, 2016		December 31, 2015	
	End of reporting year	Maximum exposure during the year	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(158)	(158)	(69)	(270)
Limitation set by the Board of Directors	(635)	⁽¹⁾ (635)	(620)	(825)
Scenario in which the exposure was measured	DN 100	DN 100	UP 100	DN 100

Footnote:

(1) In July 2016, as part of the approval of the market risk management policy document, the limitation set by the Board of Directors was changed. The said limitation reflected in the Table is the revised limitation, which is being implemented as from date of approval and thereafter.

The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios. For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (p. 67).

Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios

	For the period ended on			
	September 30, 2016		December 31, 2015	
	End of quarter	Maximum exposure during the first three quarters	End of reporting year	Maximum exposure during the year
	in NIS millions			
Actual exposure	(442)	(442)	(407)	(511)
Limitation set by the Board of Directors	⁽¹⁾ (700)	-	(850)	-

Footnote:

(1) In July 2016, as part of the approval of the market risk management policy document, the limitation set by the Board of Directors was changed. The said limitation reflected in the Table is the revised limitation, which is being implemented as from date of approval and thereafter.

INDICES AND ADDITIONAL MODELS

The Value at Risk (VaR). For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 67-68).

Details of the exposure in terms of Total VaR

	For the period ended on			
	September 30, 2016		December 31, 2015	
	End of reporting period	Maximum exposure during the quarter	End of reporting period	Maximum exposure during the year
	in NIS millions			
Actual exposure	1.6%	1.6%	2.1%	2.8%
Limitation set by the Board of Directors	3.5%	3.5%	3.5%	3.5%

The VaR of trading operations. The VaR of the trading operations is computed on a daily basis by the parametric method, at a level of significance of 99% and for a time span of one day and of ten days.

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the third quarter of 2016.

This estimate serves as one of the main tools in the management of the trading activity.

Details of the exposure in terms of - VaR in trading activity

	At the end of the third quarter ended September 30		At the end of the year	
	2016		⁽²⁾ 2015	
	End of quarter	Maximum exposure during the quarter	End of the year	Maximum exposure during the year
	in NIS millions			
Actual exposure ⁽¹⁾	15.0	17.9	9.1	23.7
Limitation set by the Board of Directors	54		54	

Notes:

(1) The Var was computed for 10 business days and 99% probability.

(2) The measurement was widened in 2016, so as to include also interest rate options. The data as of December 31, 2015, has been restated accordingly.

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 67-70).

(4) BASE RISK EXPOSURE

Management of the Bank's base exposures is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.

The actual management of the exposures is conducted on the basis of economic positions in the various linkage segments, which differ from the accounting positions which may be seen in Note 32 to the financial statements. The principal change stems from the pension liabilities in respect of payroll and additional employee rights from the shekel accounting-measurement segment to the economic-measurement linked segment.

Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions).

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

The exposure is measured separately for each material currency.

The actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)

The first nine months of 2016			The year 2015		
			Range of exposure		
Segment	Limitation	Period end	from	to	average
CPI linked	⁽¹⁾ (25%)–25%	13.9%	0.4%	18.2%	11.7%
Foreign currency	40%–15%	25.8%	24.9%	26.7%	25.9%

Footnote:

(1) In July 2016, as part of the approval of the market risk management policy document, the limitation set by the Board of Directors was changed. The said limitation reflected in the Table is the revised limitation, which is being implemented as from date of approval and thereafter.

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.

CAPITAL SENSITIVITY TO CHANGES IN EXCHANGE RATE

The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of September 30, 2016

The first nine months ended on September 30, 2016				
in NIS millions				
Segment	10%	5%	5%-	10%-
USD	135	135	(135)	(282)
EUR	16	8	(5)	(10)
Other Foreign Currencies	(12)	(6)	6	11

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks. The manner of managing the capital of the investment in IDB New York does not expose the Group's capital ratios to significant changes in the exchange rate.

(5) MANAGEMENT OF POSITIONS IN THE TRADING PORTFOLIO

Trading portfolios. The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank's activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while enabling exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

The Bank's dealing room conducts both trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.

The Board of Directors has determined separate sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

Activity in derivative financial instruments. The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

Market exposure created as a result of transactions in derivative financial instruments, both as regards linkage base and as regards interest rates, is included within the framework of the various limits imposed by the Board of Directors on exposure to linkage base, interest rates and options.

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers or its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2016.

The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.

Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself. The Bank permits selected customers to operate on credit in the Ma'of market while monitoring closely, on an ongoing basis, the risk involved in the portfolio as compared with security received.

Data (accounting) as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

	September 30, 2016	December 31, 2015
	in NIS millions	
Hedging derivatives	3,344	3,401
ALM derivatives	199,159	186,149
Other derivatives	19,988	⁽¹⁾ 29,517
SPOT foreign currency swap contracts	2,266	1,626
Total	224,757	220,693

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.

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2015 (p. 179 and pp. 291-298).

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value" and are not recognized in the statement of income. Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions".

Details of financing income from derivative financial instruments are presented in Note 3 to the financial statements.

Option risks. Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices, interests and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2016.

(6) THE STANDARDIZED APPROACH TO THE ALLOCATION OF CAPITAL TO MARKET RISKS

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest risks and shares resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York in accordance with the approval of the Supervisor of Banks).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

Details of capital allocation to market risks according to the standard approach

	Capital allocation as of	
	September 30, 2016	December 31 2015
	In NIS millions	
Interest rate risk*	281	248
Foreign exchange rate risk	34	35
Share risk	3	1
Option risk	44	22
Total for the Banking Group	391	306
Allocation in risk asset terms	2,872	2,435

* Including the specific risk in the amount of NIS 11 million and NIS 6 million in September 2016 and December 2015, respectively.

The allocation to market risks in risk asset terms comprises 1.89% of the total risk assets as of September 30, 2016, compared with 1.71% as of December 31, 2015.

SHARES POSITION IN THE BANKING BOOK (TABLE 13)

STRATEGY AND PROCESSES

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:

- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see "Non-financial companies sub-segment" under "Activity of the group according to principal segments of operation" in 2015 Annual Report (pp. 444-447).

It is noted that the sale of the shares of FBI has reduced the share risk of the Group (see the 2015 Annual Report, pp. 366-367).

Details regarding investments in shares

	September 30		December 31
	2016	2015	2015
	in NIS millions		
Investments in shares of affiliated companies⁽¹⁾:			
Non marketable shares	151	142	144
Shares in the available-for-sale portfolio:			
Marketable shares	82	519	493
Non marketable shares	852	798	803
Total shares in the available for sale portfolio	934	1,317	1,296
Total investment in shares	1,085	1,459	1,440

Footnote:

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

Capital requirement regarding share position

	September 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 ⁽²⁾	163	145	143
In respect of investments in other shares ⁽³⁾	59	104	102
Total capital requirement regarding share position	222	249	245

Footnotes:

- (1) The capital requirement was computed according to 12.6% (September 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%.

LIQUIDITY AND FINANCE 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. As this involves an uncertainty situation, in which the liquidity risk always exists, the Bank has determined the limitation of maximum exposure to liquidity risk.

For a quantitative disclosure regarding liquidity and finance risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 75-78).

LIQUIDITY COVERAGE RATIO

For details regarding Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 79-82).

The liquidity coverage ratio rose from December 31, 2015 until September 30, 2016 from a rate of 128.0% to a rate of 129.7%. The average liquidity coverage ratio for 2015 (measured as from April 1, 2015) was 133.3% as compared to an average ratio of 132.5% in the first nine months of 2016.

The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM) portfolio, on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on Treasury Bills, U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED as well as on international high rated corporate bonds.

Details of the composition of the liquidity buffer

		For the year ended	
		September 30, 2016	December 31, 2015
Assets included		in NIS millions	
Buffer 1	Cash	15,869	16,880
	Israel Bonds/Short-term loans (MAKAM)	21,772	22,280
	Foreign bonds	3,628	3,014
Buffer 2	Sovereigns bonds	186	157
	Mortgage bonds issued by public corporations	1,457	1,554
	Corporation Bonds AA	1,153	368
Buffer 2 b	Corporation Bonds A	102	168
Total		44,168	44,420

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB New York to its parent company is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB NY (over 100%) in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, which operates within the same jurisdiction as the Bank, is included in the Group model.

Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

Distribution of the liquidity coverage ratio (average for the fourth quarter) according to the legal entities within the Group:

		For the period ended	
		June 30, 2016	December 31, 2015
		In %	
Discount Group		129.7%	128.0%
The Bank		157.5%	153.4%
IDB New York		105.1%	90.2%
Mercantile Discount Bank		120.5%	120.3%
Discount Group		129.7%	128.0%

Concentrating the liquidity surplus at the Bank allows for higher flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group. Accordingly, during 2015 the Bank passed on a part of the liquidity surplus to subsidiaries (Mercantile Discount Bank and IDB New York) thus reducing the cost of the Group's liquidity.

The liquidity coverage ratio in the principal currencies. The Bank measures also the liquidity coverage ratios in the principal currencies. It is noted that the SWAP operations of the Bank have an impact on the currency level ratio, but hardly affects the computation of the overall ratio. As of September 30, 2016 the coverage ratio in shekels was 110.9% compared with 155.1% at December 31, 2015. The main factors leading to the decrease in the ratio were: a transition of liquidity from shekel to foreign currency, mostly by shekel/dollar SWAP transactions. In U.S. dollars, the liquidity coverage ratio at September 30, 2016, was 172.6% compared with 174.7% at December 31, 2015. The main factors leading to the decrease in the ratio were: transfer of liquidity in swap transactions between dollar and other currencies (mostly Euro), and a growth in the outstanding balance of the Group's credit. In Euros, the liquidity coverage ratio at September 30, 2016, was 128.7% compared with 77.2% at December 31, 2015. The main factors leading to the increase in the ratio were: The settlement and shortening of the Euro to US dollar SWAP transactions to a period of one month.

The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, in addition to investing in assets of the liquidity and credit buffers, invests also its surplus liquidity in bank deposits and in the interbank SWAP market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

LIQUIDITY COVERAGE RATIO (TABLE 16)

For the period of three months ended				
	September 30, 2016		December 31,2015	
	In NIS millions			
	Total non-weighted value (average)	Total weighted value (average)	Total non-weighted value (average)	Total weighted value (average)
Total high quality liquid assets				
Total high quality liquid assets (HQLA)		44,168		44,420
Cash outflows				
Retail deposits from individuals and small businesses, of which:	111,391	6,947	104,767	6,587
Stable deposits	33,283	1,621	30,994	1,505
Less stable deposits	41,879	4,337	39,125	4,132
Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)	36,229	989	34,648	950
Unsecured wholesale financing, of which:	53,430	33,950	51,194	32,183
Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations	1	(2)	1	1
Deposits not for operational purposes (all counterparties)	53,426	33,946	51,193	32,182
Unsecured debts	3	3	-	-
Secured wholesale financing	-	2	-	-
Additional liquidity requirements, of which:	55,877	8,642	58,193	9,186
Cash outflows in respect of exposure to derivatives and other collateral requirements	6,335	2,072	6,895	2,395
Cash outflows in respect of loss of financing of debt products	-	-	4	2
Credit and liquidity facilities	49,542	6,570	51,294	6,789
Other contractual financing commitments	15,099	541	13,368	1,195
Other conditional financing commitments	2,354	74	2,001	68
Total cash outflows		50,155		49,219
Cash inflows				
Secured loans (e.g., Reverse repo transactions)	1,819	1,819	652	652
Cash inflows from regularly performing exposure	20,299	13,142	18,556	12,191
Other cash inflows	1,771	1,132	3,337	1,683
Total cash inflows	23,890	16,093	22,545	14,526
		Total adjusted value		Total adjusted value
Total High Quality Liquidity Asset (HQLA)		44,168		44,420
Total net cash outflows		34,063		34,693
Liquidity Coverage Ratio (%)		1.3		1.3

Footnotes:

(1) The data does not include DBLA in view of the agreement for the sale of its operations, see Note 18 to the condensed financial statements.

(2) Amount lower than NIS 1 million.

FINANCING RISK

Financing risk is the risk of creating a resources structure that is not stable enough in the long-run, to serve the planned applications. This risk is managed by way of determining an annual financing strategy, one of the cornerstones of which is the determination of long-term goals with a viewpoint of several years, including the determination of goals in respect of the long-term composition of the resources, from the viewpoint of the Bank, of each of the subsidiaries and of the Group. For details, see above.

FINANCING RISK - AVAILABLE AND UNRESTRICTED ASSETS

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Ministry of Finance, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. On the side of collateral received by the Bank, such assets are no recognized as part of the Bank's liquidity buffer.

	September 30, 2016	December 31,2015
	in NIS millions	
Total assets	61,385	64,326
Liquidity requirement	5,262	5,076
Of which pledged	6,780	5,416
Of which provided as collateral	277	332
Total available assets	49,065	53,502

OPERATIONAL RISKS

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details regarding operational risks, including risk of fraud and embezzlement and business continuity, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 83-87).

OTHER RISKS

DATA AND CYBER PROTECTION RISKS

THREATS IN THE CYBERSPACE

In the third quarter of 2016, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

For details regarding Proper Conduct of Banking Business Directive No. 367 in the matter of "Online Banking" and regarding the amendment of Proper Conduct of Banking Business Directive No. 420 regarding "Electronic Transfer of Information", see "Legislation and Supervision" in the Directors and Management Report.

For additional details regarding data protection and cyber defense risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (pp. 87-92).

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.

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.

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

Audit report in the matter of the prohibition of money laundering. An audit report by the Bank of Israel in the matter of prohibition of money laundering was received on February 24, 2014. The Bank has completed dealing with most of the findings of the audit report. The Bank is requested to prepare an audit report, by means of an independent outside factor, the object of which, among other things, is to verify the appropriateness of the rectification of deficiencies indicated by the audit report of the Bank of Israel and by additional audit reports relating to the Bank. The said audit report had been completed, discussed on April 28, 2015, by the Audit Committee of the Board of Directors and submitted to the Bank of Israel. The Bank has completed attending to most of the findings and acts towards the completion of the treatment of the findings and recommendations of the independent factor.

The Supervisor of Banks informed the Bank on October 31, 2016, that the audit process had been completed, subject to the finalizing of the rectifications in accordance with the detailed time schedule submitted to the Supervisor. The Internal Auditor has been asked to follow and verify the said rectifications and report to the Supervisor in case of a material deviation from the time schedule.

EXPOSURE TO CROSS-BORDER RISKS IN RESPECT OF THE ACTIVITIES OF FOREIGN RESIDENT CUSTOMERS

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 4, 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. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the years 2014 and 2015.

For further details regarding cross-border risks, see the document "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report.

For additional details regarding other risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2015 Annual Report, and is open for review 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. (and including information technology risks – pp. 87-89; environmental risks – p. 92, legal and regulatory risks – pp. 92-94, compliance risks – pp. 95-97, strategic risk – pp. 103-104, reputation risk – p. 104).

Dr. Yossi Bachar
Chairman of the
Board of Directors

Lilach Asher-Topilsky
President &
Chief Executive Officer

Avi Levi
Senior Executive Vice President
Chief Risk Officer

November 17, 2016

GLOSSARY

Management quality	Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).
Key Risk Indicator	Means/pointer showing the risk exposure situation in relation to the risk.
Failure event	An event where risk is realized, whether or not causing damage to the Bank.
Gross credit	Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.
Off-balance sheet credit	Includes: unutilized binding facilities, guarantees, documentary credit and derivatives. Binding facilities - any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.
Balance sheet credit	Credit (to the public, governments) and bonds.
Collateral	Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.
Credit Risk Mitigation (CRM)	Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.
Allowances for credit losses	A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created. Allowance for credit losses on a specific basis - an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired. Allowance for credit losses on a group basis - an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method.
Debt under special mention	A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.
Substandard debt	A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.
Impaired debt	A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.
Liquidity coverage ratio (LCR)	The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.
Business goal	A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.
Recorded amount	The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet

	amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.
Uniform macro-economic stress test	A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator
Sensitivity tests	A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk - steep decline in interest rate; in credit risk - steep decline in housing prices).
Restriction (internal)	A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.
Capital outline	A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis regarding the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors regarding the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution.
Over the counter (OTC) derivatives	Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.
Monitoring of capital ratios	Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.
Alert levels	Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.
Risk profile	Assessment of the combined risk inherent in the exposures and in the activity of the Bank
Risk appetite	Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.
Available-for-sale portfolio	Securities not classified as bonds held to maturity or as trading securities.
Trading portfolio	Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.
Held-to-maturity portfolio	Securities in respect of which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.
Stress tests	A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking

	<p>corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.</p>
Credit conversion factors (CCF)	<p>Conversion of off-balance sheet items to credit equivalents - according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients</p>
Credit support annex (CSA)	<p>An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.</p>
International Swaps and Derivatives Association (ISDA)	<p>An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.</p>
Foreign Account Tax Compliance Act (FATCA)	<p>In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States.</p>