

Q1

# CONDENSED FINANCIAL STATEMENTS

## 31.3.2017



**ISRAEL  
DISCOUNT  
BANK**

The logo consists of the words "ISRAEL", "DISCOUNT", and "BANK" stacked vertically in a bold, sans-serif font. Below the text is a thick, green, upward-curving arc. The entire logo is centered within a large, light green circular graphic composed of numerous smaller circles of varying sizes.

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

At the meeting of the Board of Directors held on May 15, 2017, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for March 31, 2017 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

### CONDENSED FINANCIAL INFORMATION REGARDING FINANCIAL POSITION AND OPERATING RESULTS

#### PRINCIPAL DATA

##### Profitability

	For the three months ended March 31		Change in %
	2017	2016	
	In NIS millions		
Interest income, net	1,167	<sup>(3)</sup> 1,049	11.2
Credit loss expenses	145	46	215.2
Profit before taxes	503	368	36.7
Provision for taxes on profit	182	<sup>(3)</sup> 175	4.0
Profit after taxes	321	193	66.3
Profit Attributed to the Bank's Shareholders	303	179	69.3
Profit Attributed to the Bank's Shareholders – disregarding certain components (see below)	309	229	34.9
Comprehensive income, attributed to the Bank's shareholders	129	(18)	
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	<sup>(2)</sup> 0.27	0.17	
The ratio of Profit before taxes to total equity in % <sup>(1)</sup>	14.3	11.3	
The ratio of Profit after taxes to total equity in % <sup>(1)</sup>	8.9	5.8	
Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup>	8.6	5.5	
Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup> - disregarding certain components (see below).	8.8	7.1	

Footnotes:

(1) On an annual basis.

(2) The diluted earnings are identical to the basic earnings.

(3) Reclassified, see Note 1 G (1).

##### Profitability - disregarding certain components

	2017		2016		Q1 2017 compared to
	Q1	Q4	Q1	Q4 2016	Q1 2016
	In NIS millions		Change in %		
Net income attributed to the Bank's shareholders - as reported	303	145	179	109.0	69.3
Disregarding:					
Effect of settlement <sup>(1)</sup>	6	80	-		
Effect of the change in tax rate <sup>(2)</sup>	-	59	50		
<b>Net income attributed to the Bank's shareholders - disregarding the components above</b>	<b>309</b>	<b>284</b>	<b>229</b>	<b>8.8</b>	<b>35.0</b>
<b>Net return on equity attributed to the Bank's shareholders, in % - disregarding the components above</b>	<b>8.8</b>	<b>8.2</b>	<b>7.1</b>		

Footnotes:

(1) Increased compensation to employees of an investee company overseas whose operations were sold. See Note 23 J to the annual financial statements 31 December, 2017 (page 196-197).

(2) See Note 8 L to the annual financial statements 31 December, 2016 (page 147-148).

**Balance sheet**

	March 31, 2017	March 31, 2016	December 31, 2016	Change in % compared to	
	In NIS millions			March 31, 2016	December 31, 2016
Total assets	219,096	207,200	219,577	5.7	(0.2)
Credit to the public, net	143,459	129,203	140,760	11.0	1.9
Securities	36,187	38,064	38,818	(4.9)	(6.8)
Deposits from the public	171,642	<sup>(1)</sup> 161,633	172,318	6.2	(0.4)
Equity attributed to the Bank's shareholders	14,754	13,270	14,512	11.2	1.7
Total equity	15,185	13,627	14,936	11.4	1.7

Footnote:

(1) Reclassified - see Note 1 G (2) to the condensed financial statements.

**Ratio of capital to risk assets**

	March 31, 2017	March 31, 2016	December 31, 2016
Basel III	in %		
Ratio of common equity tier 1 to risk assets	9.7	9.4	9.8
Ratio of total capital to risk assets	13.9	13.7	13.8

**Financial ratios**

	March 31, 2017	March 31, 2016	December 31, 2016
	in %		
Ratio of total equity to total assets	6.9	6.6	6.8
Ratio of credit loss expenses to the average balance of credit to the public	0.40	0.14	0.34
Ratio of credit to the public, net to total assets	65.5	62.4	64.1
Ratio of credit to the public, net to deposits from the public	83.6	79.9	81.7
Ratio of deposits from the public to total assets	78.3	78.0	78.5
Ratio of total non-interest income to operating and other expenses	63.8	55.2	59.2
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	64.2	55.2	55.3
Ratio of operating expenses to total income	68.8	77.4	72.7
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	68.4	77.4	72.9
Risk assets adjusted return <sup>(1)</sup>	8.8	5.6	6.7
Risk assets adjusted return <sup>(1)</sup> – disregarding certain components (see below)	9.0	7.2	7.2
Leverage ratio <sup>(2)</sup>	6.6	6.4	6.6
Liquidity coverage ratio <sup>(2)</sup>	150.8	133.9	146.5

Footnotes:

(1) Return on capital computed on the average balance of risk assets (31.3.2017 - 9.17%, 31.12.2016 - 9.15%, 31.3.2016 - 9.08%).

(2) The ratio is computed in respect of the three months ended in the end of the reporting period.

**MARKET SHARE**

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

	December 31, 2016	December 31, 2015
	In %	
Total assets	15.0	14.8
Credit to the public, net	15.2	14.2
Deposits from the public	15.1	14.7
Interest income, net	17.4	17.1
Total non-interest income	18.4	15.9

## Development of the Discount share

	Closing price at end of the trading day			Rate of change in Q1 of 2017 in %
	May 10, 2017	March 31, 2017	December 31, 2016	
Discount share	900	851	801	6.3
The TA 5 Banks index	1,663.52	1,598.96	1,578.90	1.3
The TA 35 index	1,420.11	1,397.38	1,470.78	(5.0)
Discount market value (in NIS billions)	10.48	9.85	9.07	8.6

## GOALS AND BUSINESS STRATEGY

### THE UPDATED STRATEGIC PLAN

In August 2014, the Board of Directors approved the Discount Group's strategic plan for the years 2015-2019. The aim of the plan was to close the gap from the banking industry as regards a number of quantitative and qualitative parameters, headed by financial parameters of return on equity and efficiency ratio.

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

The plan is built on three main pillars – extensive efficiency, growth in the retail segment, and assimilation of change supporting organizational culture.

The plan comprised several principal layers:

#### A. Efficiency and stringent management of expenses, including:

- reducing the size of the Discount Group's workforce;
- closing branches and foreign extensions, as well as making efficiencies in the Bank's head office space;
- making savings in procurement costs and other expenses.

#### B. Customer focused growth:

- growth in the retail segment, with emphasis on individual and small business customers, at the Bank and at the subsidiaries, MDB and CAL;
- nurturing the connection with the Bank's customers by means of upgrading suitable and useful value offers across the spectrum of distribution channels, while implementing technological improvements and enhancing the customer experience;
- transferring operational activities from the branches to the back-office – "the Banking Service Center", as well as assimilation of faster and more simple work processes at the branches;

#### C. Assimilating a change supporting organizational culture;

#### D. Focus and reducing non-core-business activities.

Since launching the plan, the Bank has successfully made significant progress in implementing all aspects of the strategic plan, both in improving capabilities and infrastructure and also in the actual results.

Nonetheless, in recent years, and particularly during the past year, the competitive environment in which the Bank operates has changed at a rapid pace. These changes include technological developments, regulatory changes, whose objective is to stimulate the competitiveness and transparency, and changes in the competition map following the entry of off-banking players into classic banking fields.

Against the said background, concurrently with the continuing implementation of the original strategy, in 2016 an update of the strategic plan was conducted. The updated plan is based on the original strategic plan, but is more extensive, more challenging and continues through 2021.

The updated strategic plan is based on a leading goal – leading in the Bank's customer satisfaction by means of customer adapted banking, and comprises three principal layers:

- a further narrowing of the gap with the banking system;
- a transformation in traditional banking;
- development of innovative banking models.

In addition, within the framework of updating the strategic plan, several financial goals were set, the principal of which are achieving a return on capital of approx. 10% by 2021 and achieving an efficiency ratio approx. 60% by 2021.

ICC has also formed an updated strategic plan for the years 2017-2021, taking into consideration the changes that are expected to happen in the credit card field, in view of the enactment of the Increase in Competition Act. See below "Israel Credit Cards Ltd." under "Main investee companies".

### ASSIMILATION OF THE STRATEGIC PLAN

With the refreshing of the strategy, the projects map was also updated so that at the end of the first quarter of 2017 the Group is managing 28 strategic projects. The "change administration" established in 2014, continues to lead the coordination of the change programs, to assist in their implementation, to monitor and control their progress and to report to Management and the Board of Directors.

**Forward-looking information.** The main points of the strategic plan presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, return on capital, efficiency ratio, and so forth. These assessments are based on the latest information and estimates available to the Bank at date of publishing the reports. The strategic plan is based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plan are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of some of the future processes and their impact on profitability.

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

### MATERIAL TRENDS, OCCURRENCES, DEVELOPMENTS AND CHANGES

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

The Group's activity during the first quarter of 2017 formed a direct continuation of its activity in 2016, this in accordance with and within the framework of the implementation of the strategic plan of the Group. The Group's capital management is strict. The financial base of the Group continues to be stable. The ratio of equity capital Tier 1 amounts to 9.7% and the liquidity coverage ratio amounts to 150.8%. This is the capital infrastructure that allows the Group to continue growing.

The central challenges and issues in the first quarter were:



### ISSUE OF SUBORDINATED DEBT NOTES (SERIES L)

On January 9, 2017, the Bank completed the issue of subordinated debt notes in a total amount of NIS 784 million, which include a mechanism for the absorption of capital losses, being capital instruments classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital. The said issue contributed approx. 0.5% to the overall capital ratio as of March 31, 2017.

### FORMATION OF THE "DISCOUNT SPIRIT"

With the passing of two and one half years since the beginning of the implementation of the strategic plan, which outlines the activity in all the core fields of operation and supporting fields of Discount Bank's operations, the need was found for the outlining of the organization's spirit for the creation of a joint language and of a generating power leading to the success of the organization in attaining its business goals, as a complementary process to the Bank's strategy. At the end of 2016, the Bank's Management decided to begin a process for the formation of the "Discount Spirit". The process is made of three tiers:

- Formation of a vision
- Formation of values
- Writing of conduct rules (code of ethics)

The vision, values and the code of ethics are to replace the existing vision, values and code of ethics.

The vision of the Bank was formed and approved in the first quarter of 2017. All members of the Bank's senior forum participated in this process.

Following is the vision: **We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking.**

Presently, the Bank is preparing for the process of forming the Bank's values, in which all Bank employees would participate, followed by an integration process continuing into 2018.

### UNCOMPROMISING CONTINUATION OF THE STRATEGIC PLAN

The strategic teams at the Bank and at the subsidiary companies have acted and continue to act vigorously, towards an exact implementation of the many projects stemming from the strategic plan, including the business focus on growth, mainly as regards credit the field, within the targeted populations, as defined in the strategic plan, and the development of digital activity, in the different channels.

The implementation of efficiency measures is also continuing, including the "Lean" processes, basing the activity of the banking service center, reducing the floor space being used by the Bank, including the merger of branches and the continuing vacating and sale of buildings (used by branches and the head office), as well as additional measures leading to direct savings in Bank expenses.

### ADDITIONAL ISSUES

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

## PRINCIPAL ECONOMIC DEVELOPMENTS

Presented below are the main economic developments that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in the first quarter of 2017.

**Growth.** The first quarter of 2017 was characterized by the expansion of the global growth, including a growth of 0.7% in the United States and of 1.8% in the Eurozone. In Israel, tax revenues data and the continuing improvement in the labor market data indicate that the local economy is expected to maintain, in the first quarter of the year, a growth rate, which characterized recent quarters (excluding motor vehicles).<sup>1</sup>

**Exchange rates.** During the first quarter of 2017, the dollar weakened against most of the world's currencies. This follows significant strengthening of the dollar against many of the world's currencies during 2016. The shekel maintained its stature with an appreciation of 5.5% and 4.5% against the U.S. dollar and against the effective currency array, respectively. The non-financial economy continues to support the strength of the shekel, despite the expansionary monetary policy of the Bank of Israel and the negative interest differences against the U.S. dollar.

**Inflation.** A rise in the rate of inflation was recorded in the first quarter of 2017, totaling 0.9% in the period of twelve months ended in March 2017. This, compared to a negative inflation of 0.7% in the twelve months ended in March 2016. Most of the rise in the inflationary rate was due to a global increase in oil prices and to the lessening of the mitigating effect of the reduction in prices stemming from Government decisions (reduction in import duties, reduction of the VAT, electricity and water rates).

**Monetary policy.** The first quarter of 2017 was characterized by an expansionary monetary policy, similarly to prior years, and this, despite the raising of interest rates in the U.S.. Moreover, a change in direction is noticed in the Eurozone and in Japan with respect to the monetary policy and the termination of the present process of reduction in interest rates. In Israel interest remains at a historic low of 0.1% and, in the Bank's opinion, it is not predicted to change in the coming twelve months.

**Financial markets.** The year 2017 opened with price increases on the markets, on the background of the recovery in global economy and the low interest environment. On the other hand, in Israel, the central share indices presented negative performance due to the continued weakness of the pharma corporations, while the other sectors recorded a rises.

**The second quarter of 2017.** The current macro-economic data for the second quarter of the year indicate the continuation of a moderate growth trend, with an improvement in the U.S.. The rate of increase in the interest rate, taken already into consideration in market prices, resembles the estimates of the FED. The signs in Europe are that the monetary policy will remain unchanged in the coming months, and the ECB is expected to announce, in the second half of the year, a reduction in the monetary expansion as from the year 2018.

The current data for the second quarter in Israel, include, at this stage, mostly sentiment indices for the month of April, which indicate optimism regarding the scope of activity during the month of April in industry, commerce and in services. Optimism marked also the financial markets with fair increases in leading share indices in Tel Aviv. A slight devaluation was recorded in the exchange rate of the shekel as against the effective exchange rate, though the appreciation trend against the U.S. dollar continues.

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

For further details, see "Main developments in Israel and around the world in the first three months of 2017" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

## LEADING AND DEVELOPING RISKS

The Bank considers cyber and data protection risks as well as cross-border risks, as the most significant developing leading risks. For additional details see the 2016 Annual Report (p. 22).

<sup>1</sup> The growth figures in Israel for the first quarter of 2017 were not available at the time the report was submitted to the printing press.

## INITIATIVES CONCERNING THE BANKING SECTOR AND ITS OPERATIONS

**Increase in competition and reduction in concentration Act.** The Increase in Competition and Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017.

The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.

In the immediate future, the separation from the banks of the ownership of credit card companies would not apply to ICC but only to its competitors (Isracard and LeumiCard). Only at the end of four years would the issue of separating the ownership of ICC be re-examined. This and more, if until now the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, LeumiCard and ICC), competition between the companies is now expected to develop. Concurrently, the banks would be required to move a part of the issue of new credit cards to customers to another credit card company, at least one, with which they had no previous business. From the view point of ICC, although there would be a reduction in the issue of credit cards to customers of Discount Bank, ICC would now have the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

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

The additional tax provision that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of March 31, 2017, is estimated at NIS 53 million.

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

## EFFICIENCY OF THE BANKING INDUSTRY – THE REGULATORY EXPECTATIONS

**Regulatory expectations.** The position of the Supervisor of Banks is that the banking industry in Israel is characterized by low efficiency, as compared with banks in the developed countries. One of the key targets defined by the Supervisor of Banks is improvement in bank efficiency, namely – a reduction in bank expenses in relation to income. The object of the Supervisor is that the efficiency obtained by banks would also reach the customers, namely, would reduce the cost of bank services, lead to the shifting of resources to innovation and improvement of banking service, and to the increase in dividends to bank shareholders, who are mainly the public at large in Israel.

**Efficiency regarding real estate.** As an additional step in encouraging efficiency in the banking industry, the Supervisor of Banks published on April 9, 2017, a draft Directive which widens the definition of efficiency and encourages banks to study also the possibility of reducing expenses regarding real estate and the maintenance of Head Office and Management units, including by a re-examination of the geographical location of these units and their relocation from the centers of the large cities.

The draft Directive encourages the banks to introduce efficiency also in the real estate field, by means of relief as regards the regulatory capital. In accordance with the draft, such relief would be granted to banks that will decide to sell real estate serving their Managements and Head Office units, relocating them to alternative locations, resulting in the long-term savings in expenses. The position of the Supervisor of Banks is that such an incentive would enable banks to achieve efficiency in the real estate field, to examine the need for expansion of the efficiency plan regarding manpower, and would create a source for continued growth and the increase in credit.

For additional details, see the 2016 Annual Report (pp. 26-27).

## REVIEW BY THE INDEPENDENT AUDITORS

In their review report of the interim consolidated condensed unaudited financial statements for the three months period ended on March 31, 2017, the independent auditors drew attention to Note 10 B items 4.1 and 5 regarding requests to approve certain actions and with regard to other claims as a class action suits against the Bank and investee companies.

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

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### PROFIT AND PROFITABILITY

**Net profit attributed to the Bank's shareholders** for the first three months of 2017 totalled NIS 303 million, compared with NIS 179 million in the corresponding period last year, an increase of 69.3%.

**Return on equity net attributed to the Bank's shareholders** for the first three months of 2017 reached a rate of 8.6%, on an annual basis, compared with a rate of 5.5% for the corresponding period last year, and 6.6% for all of 2016.

**The following are the main factors that had an effect on the business results of the Group** in the first three months of 2017, compared with the corresponding period last year:

- a. An increase in interest income, net, in an amount of NIS 118 million (11.2%) mainly affected by the growth in the credit portfolio.
- b. An increase in credit loss expenses, of NIS 99 million (215.2%) mainly a growth in allowance on a group basis.
- c. An increase in the total non-interest income, of NIS 131 million (16.8%), affected by an increase of NIS 129 million in non-interest financing income (134.4%) mainly, an increase of NIS 63 million in income from the realization of investments in Discount Capital. An increase of NIS 42 million in commissions (6.7%), mainly an increase in credit card commissions and activity in securities and certain derivative instruments, and a decrease of NIS 40 million in other income, mostly from the realization of assets (64.5%).
- d. An increase of NIS 15 million in operating and other expenses (1.1%), affected, mainly, by an increase of NIS 24 million in other expenses (8.4%) which was offset by a decrease in the amount of NIS 9 million in maintenance and depreciation expenses of buildings and equipment (3.3%).
- e. Tax provision of NIS 182 million on earnings in the first three months of 2017, compared with NIS 175 million in the corresponding period last year. The provision for taxes in the first three months of 2016 was impacted by the one-time effect of the reduction in the corporate tax rate, an expense of NIS 50 million (see Note 8 K to the financial statements as of December 31, 2016, p. 164).

## DEVELOPMENTS IN INCOME AND EXPENSES

**Developments in certain income statement items in the first quarter of 2017, compared with the fourth quarter of 2016 and compared with the first quarter of 2016**

	2017		2016		Rate of Change Q1 2017 compared to
	Q1	Q4	Q1	Q4 2016	Q1 2016
	In NIS millions		in %		
Interest income	1,440	<sup>(2)</sup> 1,428	<sup>(2)</sup> 1,218	0.8	18.2
Interest expenses	273	262	169	4.2	61.5
Interest income, net	1,167	1,166	1,049	0.1	11.2
Credit loss expenses	145	224	46	(35.3)	215.2
<b>Net interest income after credit loss expenses</b>	<b>1,022</b>	<b>942</b>	<b>1,003</b>	<b>8.5</b>	<b>1.9</b>
Non-interest Income					
Non-interest financing income	225	179	96	25.7	134.4
Commissions	666	653	624	2.0	6.7
Other income	22	6	62	266.7	(64.5)
<b>Total non-interest income</b>	<b>913</b>	<b>838</b>	<b>782</b>	<b>8.9</b>	<b>16.8</b>
Operating and other Expenses					
Salaries and related expenses	859	866	859	(0.8)	-
Maintenance and depreciation of buildings and equipment	264	254	273	3.9	(3.3)
Other expenses	309	338	285	(8.6)	8.4
<b>Total operating and other expenses</b>	<b>1,432</b>	<b>1,458</b>	<b>1,417</b>	<b>(1.8)</b>	<b>1.1</b>
Profit before taxes	503	322	368	56.2	36.7
Provision for taxes on profit	182	<sup>(2)</sup> 168	<sup>(2)</sup> 175	8.3	4.0
Profit after taxes	321	154	193	108.4	66.3
Bank's share in profit (loss) of affiliated companies, net of tax effect	(4)	3	(1)	-	300.0
Net profit attributed to the non-controlling rights holders in consolidated companies	(14)	(12)	(13)	16.7	7.7
<b>Net Profit attributed to Bank's shareholders</b>	<b>303</b>	<b>145</b>	<b>179</b>	<b>109.0</b>	<b>69.3</b>
Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup>	8.6	4.1	5.5		
<b>Net Profit attributed to Bank's shareholders - disregarding certain components (see above)</b>	<b>309</b>	<b>284</b>	<b>229</b>	<b>8.8</b>	<b>34.9</b>
Net return on equity attributed to the Bank's shareholders, in % <sup>(1)</sup> - disregarding certain components (see above)	8.8	8.2	7.1		

Footnote:

(1) On an annual basis.

(2) Reclassified, see Note 1 G (1) to the condensed financial statements.

Following are details regarding material changes in statement of profit and loss items:

**Interest income, net.** In the first three months of 2017, interest income, net, amounted to NIS 1,167 million compared with NIS 1,049 million in the corresponding period last year, an increase of 11.2%. The rise in the interest income, net, in the amount of NIS 118 million, is explained by a positive price impact of NIS 35 million, and a positive quantitative effect in the amount of NIS 83 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).

The interest spread, excluding derivatives, reached a rate of 2.22% in the first three months of 2017, compared with 2.16% in the corresponding period last year.

The average balance of interest bearing assets has increased by a rate of approx. 6.3%, from an amount of NIS 186,674 million to NIS 198,344 million, and the average balance of interest bearing liabilities increased by a rate of approx. 7.0%, from an amount of NIS 142,301 million to NIS 152,223 million.

**Non-interest financing income.** In the first three months of 2017, non-interest financing income amounted to NIS 225 million, compared to NIS 96 million in the corresponding period last year, an increase of 134.4%.

The rise in non-interest financing income is mainly from the increase in profit from investment in shares and from adjustment to fair value of derivative instruments (see Note 3 to the condensed financial statements).

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

#### Composition of the net financing income

	2017		2016		
	Q1	Q4	Q3	Q2	Q1
in NIS millions					
Interest income	1,440	<sup>(1)</sup> 1,428	1,519	1,494	<sup>(1)</sup> 1,218
Interest expenses	273	262	332	339	169
Interest income, net	1,167	1,166	1,187	1,155	1,049
Non-interest financing income	225	179	51	428	96
<b>Total net financing income</b>	<b>1,392</b>	<b>1,345</b>	<b>1,238</b>	<b>1,583</b>	<b>1,145</b>

#### Analysis of the total net financing income

	2017		2016		
	Q1	Q4	Q3	Q2	Q1
in NIS millions					
Profit from current operations	1,190	<sup>(1)</sup> 1,188	1,187	1,147	<sup>(1)</sup> 1,074
Net profit (loss) from realization and adjustment to fair value of bonds	95	(20)	43	43	75
Profit (loss) from investments in shares	79	54	3	373	14
Adjustment to fair value of derivative instruments	14	77	(30)	(18)	(39)
Exchange rate differences, options and other derivatives	13	33	35	37	21
Net profit on the sale of loans	1	13	-	1	-
<b>Total net financing income</b>	<b>1,392</b>	<b>1,345</b>	<b>1,238</b>	<b>1,583</b>	<b>1,145</b>

Footnote:

(1) Reclassified, see Note 1 G (1) to the condensed financial statements.

**Financing income, net**, amounted to NIS 1,392 million in the first three months of 2017, compared to NIS 1,145 million in the corresponding period last year, an increase of 21.6%. The growth in financing income stemmed, mostly, from an increase of NIS 116 million in profit from current operations, from an increase of NIS 65 million in gains on investment in shares and from the increase of NIS 53 million in adjustments to fair value of derivative instruments.

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

**Interest margin, from current operations, including derivatives** reached a rate of 1.20% in the first three months of 2017, compared with 1.12% in the corresponding period last year.

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

	For the three months ended March 31,		Change in %
	2017	2016	
	In NIS millions		
<b>Domestic operations:</b>			
Households	364	309	17.8
Private banking	13	14	(7.1)
Small and minute businesses	346	301	15.0
Medium businesses	66	74	(10.8)
Large businesses	115	123	(6.5)
Institutional bodies	7	8	(12.5)
Financial management	70	(1)33	112.1
<b>Total Domestic operations</b>	<b>981</b>	<b>862</b>	<b>13.8</b>
<b>Total International operations</b>	<b>186</b>	<b>187</b>	<b>(0.5)</b>
<b>Total</b>	<b>1,167</b>	<b>1,049</b>	<b>11.2</b>

Footnote:

(1) Reclassified - see Note 1 G (1) to the condensed financial statements.

**Credit loss expenses.** In the first three months of 2017 credit loss expenses in the amount of 145 million were recorded, compared with expenses of NIS 46 million in the corresponding period last year, an increase of 215.2%. The credit loss expense for the first three months of 2017 was affected, mostly, by the following factors:

- Recording of expenses on a group basis, impacted mostly, from the increase in accounting write-offs, from changes in the rate of the allowance and from a growth in credit;
- Recording of income on a specific basis, impacted mostly by collections.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 14 to the condensed financial statements.

**Development in the credit loss expenses**

	For the three months ended March 31,		2016
	2017	2016	
	In NIS millions		
On a specific basis	(12)	(9)	42
On a group basis	157	55	427
<b>Total</b>	<b>145</b>	<b>46</b>	<b>469</b>
Rate of credit loss expenses to the average balance of credit to the public <sup>(1)</sup> :			
Cumulative rate since the beginning of the year	0.40%	0.14%	0.34%

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

	2017		2016		
	Q1	Q4	Q3	Q2	Q1
	In NIS millions				
On a specific basis	(12)	77	(2)	(24)	(9)
On a group basis	157	147	143	82	55
<b>Total</b>	<b>145</b>	<b>224</b>	<b>141</b>	<b>58</b>	<b>46</b>
<b>Rate of credit loss expenses to the average balance of credit to the public<sup>(1)</sup>:</b>					
The rate in the quarter	0.40%	0.66%	0.42%	0.18%	0.14%
Cumulative rate since the beginning of the year	0.40%	0.34%	0.24%	0.16%	0.14%

Footnote:

(1) On an annual basis.

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



**Commissions** in the first three months of 2017, amounted to NIS 666 million, compared to NIS 624 million in the corresponding period last year, an increase of 6.7%.

#### Distribution of the commissions

	For the three months ended March 31		
	2017	2016	Change
	in NIS millions		in %
Account management fee	123	121	1.7
Credit cards	262	243	7.8
Operations in securities and in certain derivative instruments	88	77	14.3
Commissions from the distribution of financial products	34	33	3.0
Handling credit	39	36	8.3
Conversion differences	35	33	6.1
Foreign trade services	17	12	41.7
Net profit from credit portfolio services	2	3	(33.3)
Commissions on financing activities	45	43	4.7
Other commissions	21	23	(8.7)
<b>Total commissions</b>	<b>666</b>	<b>624</b>	<b>6.7</b>

**Salaries and related expenses** amounted to NIS 859 million in the first three months of 2017, similar to the corresponding period last year. Eliminating the effect of certain components as detailed below, a decrease of 3.2% would have been recorded.

#### Details of the effects of certain components on salaries and related expenses, with details of the impact of certain components

	2017		2016		
	Q1	Q4	Q3	Q2	Q1
	In NIS millions				
Salaries and Related Expenses - as reported	859	866	830	861	859
Awards	(41)	(18)	(28)	(45)	(23)
Effect of change	(9)	(125)	(16)	-	-
Reversal of excess provisions	-	(2)57	-	-	-
<b>Salaries and Related Expenses - Disregarding certain components</b>	<b>809</b>	<b>780</b>	<b>786</b>	<b>816</b>	<b>836</b>

Footnotes:

(1) Accelerating the amortization of "actuarial profits and losses" following the implementation of the 2016 efficiency plan - See Note 23 J to the annual financial statements 31 December, 2016 (pp. 214-215).

(2) Mostly actuarial components.

## DEVELOPMENTS IN THE COMPREHENSIVE INCOME

#### Condensed statement of comprehensive income

	For the three months ended March 31,		Change in %
	2017	2016	
	in NIS millions		
Net Profit attributed to the Bank's shareholders	303	179	69.3
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive loss, before taxes <sup>(1)</sup>	(166)	(230)	
Effect of attributed taxes	(8)	33	
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	(174)	(197)	
<b>Comprehensive income (loss), attributed to the Bank's shareholders</b>	<b>129</b>	<b>(18)</b>	<b>-</b>

Footnote:

(1) For details regarding changes in the components of other comprehensive income, see Note 4 to the condensed financial statements.



The other comprehensive income was mainly impacted by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate.

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

### DEVELOPMENT OF ASSETS AND LIABILITIES

**Total assets** as at March 31, 2017, amounted to NIS 219,096 million, compared with NIS 219,577 million at the end of 2016, a decrease of 0.2%.

#### Developments in the principal balance sheet items

	December 31, 2016	December 31, 2016	Rate of change in %
	in NIS millions		
<b>Assets</b>			
Cash and deposits with banks	29,179	29,311	(0.5)
Securities	36,187	38,818	(6.8)
Credit to the public, net	143,459	140,760	1.9
<b>Liabilities</b>			
Deposits from the public	171,642	172,318	(0.4)
Deposits from banks	5,184	5,342	(3.0)
Securities loaned or sold under repurchase arrangements	3,340	3,543	(5.7)
Subordinated debt notes	8,648	8,498	1.8
Equity attributed to the Bank's shareholders	14,754	14,512	1.7
Total equity	15,185	14,936	1.7

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

### CREDIT TO THE PUBLIC

**General.** Credit to the public, net, (after provision for credit losses) as at March 31, 2017 totaled NIS 143,459 million, compared with NIS 140,760 million at the end of 2016, an increase of 1.9%.

For details regarding the credit portfolio, see the 2016 Annual Report (pp. 37-42). For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, see "Credit risk" in Chapter C hereunder and in the 2016 Annual Report (pp. 67-85). For details regarding the quality of credit, see Note 14 B 3 to the condensed financial statements and in the 2016 Annual Report (p. 277).

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

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

	March 31, 2017		December 31, 2016		Rate of change in %
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	
Non-linked shekels	100,117	69.8	96,200	68.3	4.1
CPI-linked shekels	15,627	10.9	15,243	10.8	2.5
Foreign currency and foreign currency-linked shekels	27,715	19.2	29,317	20.8	(5.5)
<b>Total</b>	<b>143,459</b>	<b>100.0</b>	<b>140,760</b>	<b>100.0</b>	<b>1.9</b>

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 5.5% compared with December 31, 2016. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US\$6 million, an increase of 0.1% as compared to December 31, 2016. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 3.1% as compared to December 31, 2016.

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

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

	March 31 2017	December 31 2016	Change in %
	In NIS millions		
<b>Domestic operations:</b>			
Households*	53,048	51,488	3.0
Private banking*	209	214	(2.3)
Small and minute businesses	35,970	34,219	5.1
Medium businesses	12,436	12,398	0.3
Large businesses	21,921	21,438	2.3
Institutional bodies	1,007	1,047	(3.8)
<b>Total Domestic operations</b>	<b>124,591</b>	<b>120,804</b>	<b>3.1</b>
<b>Total International operations</b>	<b>20,957</b>	<b>22,100</b>	<b>(5.2)</b>
<b>Total credit to the public</b>	<b>145,548</b>	<b>142,904</b>	<b>1.9</b>
Credit loss expenses	(2,089)	(2,144)	(2.6)
<b>Total credit to the public, net</b>	<b>143,459</b>	<b>140,760</b>	<b>1.9</b>
*Of which - Mortgages	26,547	25,764	3.0

## COMPOSITION OF THE OVERALL CREDIT TO THE PUBLIC RISK BY ECONOMIC SECTORS

### Developments of total credit to the public risk, by main economic sectors

Economic Sectors	March 31, 2017		December 31, 2016		Rate of change
	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	
	in NIS millions	%	in NIS millions	%	
Industry	19,063	8.4	19,648	8.7	(3.0)
Construction and real estate - construction	23,918	10.5	22,535	10.0	6.1
Construction and real estate - real estate activity	19,257	8.5	19,511	8.7	(1.3)
Commerce	26,241	11.6	26,650	11.8	(1.5)
Financial services	20,816	9.2	21,063	9.4	(1.2)
Private individuals - housing loans	28,634	12.6	27,761	12.3	3.1
Private individuals - other	54,381	23.9	53,382	23.7	1.9
Other sectors	34,797	15.3	34,649	15.4	0.4
<b>Total overall credit to the public risk</b>	<b>227,107</b>	<b>100.0</b>	<b>225,199</b>	<b>100.0</b>	<b>0.8</b>

The data presented above indicates that in the first quarter of 2017, the overall risk regarding credit to the public increased by 0.8% compared with the end of 2016. This growth applied mostly to credit granted to construction and real estate – construction sector, private individuals – housing loans and private individuals – other. In the meantime, a decrease occurred in the overall risk regarding credit to the industrial, commerce, construction and real estate – real estate activity and financial services sectors.

## DEVELOPMENT OF PROBLEMATIC CREDIT RISK

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

**Impaired credit to the public.** The balance sheet impaired credit to the public (accruing interest and non-accruing) amounted at March 31, 2017 to approx. NIS 2,640 million, compared to NIS 2,943 million at December 31, 2016, a decrease of 10.3%.

**Impaired non-accruing credit to the public.** The impaired non-accruing credit to the public which is examined on a specific basis, amounted at March 31, 2017 to approx. NIS 2,192 million, compared to NIS 2,394 million at December 31, 2016, a decrease at a rate of 8.4%.

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

Economic Sectors	March 31, 2017			December 31, 2016		
	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	19,063	651	3.4	19,648	657	3.3
Construction and real estate - construction	23,918	445	1.9	22,535	483	2.1
Construction and real estate - real estate activity	19,257	408	2.1	19,511	451	2.3
Commerce	26,241	1,066	4.1	26,650	1,105	4.1
Financial services	20,816	737	3.5	21,063	766	3.6
Private individuals - housing loans	28,634	312	1.1	27,761	328	1.2
Private individuals - other	54,381	448	0.8	53,382	441	0.8
Other Sectors	34,797	1,091	3.1	34,649	1,340	3.9
<b>Total Public</b>	<b>227,107</b>	<b>5,158</b>	<b>2.3</b>	<b>225,199</b>	<b>5,571</b>	<b>2.5</b>
Banks	7,730	33	0.4	9,189	93	1.0
Governments	25,602	-	-	26,575	-	-
<b>Total</b>	<b>260,439</b>	<b>5,191</b>	<b>2.0</b>	<b>260,963</b>	<b>5,664</b>	<b>2.2</b>

In the first quarter of 2017, the ratio of problematic credit risk to the total credit risk decreased. There was a reduction in the percentage of the problematic debt in the construction and real estate - real estate activity, the construction and real estate - construction and the financial services sectors. On the other hand, there was a rise in the percentage of the problematic debt in the industrial sector.

## THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES

**The balance of the allowance for credit losses.** The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,089 million as of March 31, 2017. The balance of this allowance constitutes 1.43% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,144 million, constituting 1.50% of the credit to the public as of December 31, 2016.

**The balance of the specific allowance for credit losses.** The outstanding balance of the specific allowance for credit losses in respect of impaired credit to the public, computed on a specific basis amounted to NIS 283 million on March 31, 2017, compared to NIS 389 million on December 31, 2016, a decrease of 27%, affected mainly by accounting write-offs.

**The balance of the group allowance for credit losses.** The outstanding balance of the group allowance for credit losses, excluding housing loans for which the allowance for credit loss was calculated according to the extent of arrears, amounted on March 31, 2017 to NIS 1,635 million, compared to NIS 1,586 million as of December 31, 2016, comprising an increase in the current allowance in the amount of NIS 49 million, a rate of 3%.

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

**The distribution of expenses and the ratio of credit loss expenses in the different economic sectors in relation to the outstanding balance of credit to the public in those sectors**

sectors	For the three months ended March 31			
	2017		2016	
	Credit loss expense In NIS millions	Rate of expense (expense reversal) %	Credit loss expense In NIS millions	Rate of expense (expense reversal) %
Agriculture	3	1.2	(4)	(1.6)
Mining & Quarrying	1	1.0	-	-
Industry	(18)	(0.6)	(32)	(1.0)
Construction and real estate - construction	(18)	(0.7)	6	0.4
Construction and real estate - real estate activity	5	0.1	4	0.1
Electricity and water	2	0.4	1	0.2
Commerce	47	1.0	16	0.3
Hotels, hotel services and food	(1)	(1)	(9)	(1.5)
Transportation and storage	(1)	(0.1)	7	0.6
Communications and computer services	38	7.1	2	0.4
Financial services	(1)	(0.0)	15	0.7
Other business services	6	0.5	6	0.5
Public and community services	9	0.7	2	0.2
Private Individuals - Housing Loans	4	0.1	4	0.1
Private Individuals - Other	68	1.0	29	0.5
<b>Total Public</b>	<b>145</b>	<b>0.40</b>	<b>47</b>	<b>0.14</b>
Total Banks	-	-	(1)	-
<b>Total credit loss expenses</b>	<b>145</b>	<b>-</b>	<b>46</b>	<b>-</b>

Footnote:

(1) Less than one NIS million.

The data presented above indicates that the rise in credit loss expenses in the first quarter of 2017, centered mostly in the communication and computer services, commerce, and private individuals – other sectors. On the other hand, credit loss expenses decreased in the construction and real estate – construction and financial services sectors.

## SECURITIES

**General.** Securities in the Nosrto portfolio totaled NIS 36,187 million as of March 31, 2017, compared with NIS 38,818 million at the end of 2016, a decrease of 6.8%. It is clarified that the "Nostro" portfolio of the Discount Group as of March 31, 2017, did not include any security the investment in which comprised 5% or over of the value of the total portfolio, except for a security of the "government variable 520" type security of the "government shekel 120" type and security of the "government variable 1121" type, which amounted to 8.0%, 5.6% and 8.0% of the total portfolio, respectively.

As of March 31, 2017, some 64% of the portfolio is invested in Government bonds, and 5% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the Bank's investments in bonds, according to economic sectors, see "Appendices to the quarterly report", appendix 2, items 1-3. For details regarding the segmentation of the investment in government bonds according to principal governments, see "Appendices to the quarterly report" – appendix 3, item 3.

For details regarding the Nostro portfolios management policy, see 2016 Annual Report (pp. 43-46).

## COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

### Composition of the securities portfolio by linkage segments

	March 31, 2017	December 31, 2016	Rate of change in %
	In NIS millions		
Non-linked shekels	16,414	16,705	(1.7)
CPI-linked shekels	4,139	4,607	(10.2)
Foreign currency and foreign currency-linked shekels	14,684	16,530	(11.2)
Shares - non-monetary items	950	976	(2.7)
<b>Total</b>	<b>36,187</b>	<b>38,818</b>	<b>(6.8)</b>

Securities in foreign currency and in Israeli currency linked to foreign currency decrease by 11.2%, compared with December 31, 2016. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency decreased by US\$256 million, a decrease of 6.0% as compared with December 31, 2016. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. dollar terms decreased by 4.6% as compared with December 31, 2016.

## COMPOSITION OF THE SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

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

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

	March 31, 2017		December 31, 2016			
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
<b>Bonds</b>						
Held to maturity	5,898	6,179	5,898	6,267	6,559	6,267
Available for sale	26,720	26,777	26,777	28,671	28,753	28,753
Trading	2,563	2,562	2,562	2,827	2,822	2,822
<b>Shares</b>						
Available for sale	932	941	941	957	963	963
Trading	10	9	9	13	13	13
<b>Total Securities</b>	<b>36,123</b>	<b>36,468</b>	<b>36,187</b>	<b>38,735</b>	<b>39,110</b>	<b>38,818</b>

**Corporate bonds.** Discount Group's available for sale securities portfolio as of March 31, 2017, includes investments in corporate bonds in the amount of NIS 2,577 million (including an amount of NIS 359 million held by IDB New York, an amount of NIS 204 million, held by Mercantile and NIS 2,014 million directly held by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 5 to the condensed financial statements.

## INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

**Investments in mortgage and asset backed securities – general.** Discount Group's securities portfolio as of March 31, 2017 includes investment in mortgage backed securities, in the amount of US\$2,185 million, which are held by IDB New York, compared to an amount of US\$2,217 million as at December 31, 2016. Approx. 98% of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac). The investment in the said bonds does not include exposure to the subprime market.

As of March 31, 2017, the portfolio of mortgage backed securities (MBS) and asset backed securities (ABS) included unrealized net losses of US\$20 million.

For details regarding the agencies operating under the auspices of the U.S. Administration, see the 2016 Annual Report (pp. 44-45).

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

**CLO.** IDB New-York holds secured bonds of the CLO class in a total amount of US\$50 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 5 to the condensed financial statements.

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

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

For details regarding the review of impairment of securities, see "Critical accounting policies and critical accounting estimates" in the 2016 Annual Report (p. 130) and Note 1 D 5 to the financial statements as of December 31, 2016 (pp. 177-179). Based on a review of the impairment of the said securities as of March 31, 2017, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As of the dates March 31, 2017, March 31, 2016 and December 31, 2016, the losses accumulated but not yet realized on available-for-sale shares were in negligible amounts. As of March 31, 2017, March 31, 2016 and December 31, 2016, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 76 million, NIS 18 million and NIS 78 million, respectively. For additional details, see Note 5 to the condensed financial statements.

## CUSTOMER ASSETS

**Deposits from the public** as at March 31, 2017, totalled NIS 171,642 million, compared with NIS 172,318 million at the end of 2016, a decrease of 0.4%.

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

	March 31, 2017		December 31, 2016		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	111,196	64.8	108,345	62.9	2.6
CPI-linked shekels	5,203	3.0	5,360	3.1	(2.9)
Foreign currency and foreign currency-linked shekels	55,243	32.2	58,613	34.0	(5.7)
<b>Total</b>	<b>171,642</b>	<b>100.0</b>	<b>172,318</b>	<b>100.0</b>	<b>(0.4)</b>

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased at the rate of 5.7%, compared with December 31, 2016. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased by US\$34 million, a decrease of 0.2% compared with December 31, 2016. The total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. dollar terms, increased at a rate of 1.5%, compared with December 2016.

**Review of developments in the balance of deposits from the public, by regulatory operating segments**

	March 31, 2017	December 31, 2016	Change in %
	In NIS millions		
<b>Domestic operations:</b>			
Households	67,941	67,496	0.7
Private banking	15,450	16,221	(4.8)
Small and minute businesses	27,128	27,729	(2.2)
Medium businesses	6,369	6,982	(8.8)
Large businesses	15,098	14,285	5.7
Institutional bodies	14,960	13,185	13.5
<b>Total Domestic operations</b>	<b>146,946</b>	<b>145,898</b>	<b>0.7</b>
<b>Total International operations</b>	<b>24,696</b>	<b>26,420</b>	<b>(6.5)</b>
<b>Total deposits from the public</b>	<b>171,642</b>	<b>172,318</b>	<b>(0.4)</b>

The ratio of total credit to the public, net, to deposits from the public was 83.6% as at March 31, 2017, compared with 81.7% at the end of 2016.

Deposits from the public of the three largest depositor groups amounted as of March 31, 2017, to NIS 8,948 million.

**Securities held for customers.** On March 31, 2017, the balance of the securities held for customers at the Bank amounted to approx. NIS 4.182 billion, including approx. NIS 4.5 billion of non-marketable securities, compared to approx. NIS 181 billion as at December 31, 2016, including approx. NIS 4.4 billion of non-marketable securities, an increase of 0.8%. For details as to income from security activities, see Note 3 to the condensed financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of March 31, 2017, amounted to NIS 9.99 billion, compared with NIS 10.16 million in December 31, 2016, a decrease of 1.7%.

**Investment portfolio management.** On March 31, 2017, Tafnit was managing investment portfolios, overall valued at approx. NIS 6,430 million, as compared to approx. NIS 6,515 million as at December 31, 2016, a decrease of 1.3%.

## CAPITAL AND CAPITAL ADEQUACY

### IMPLEMENTATION OF BASEL III IN ISRAEL

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

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

**Effect of the transitional instruction included in Proper Conduct of Banking Business Directive No. 299 ("the Instruction").**

Among other things, the Instruction included transitional instruction, which allow, in certain of the matters, a gradual implementation over a number of years. Below are presented the short-term and the long-term effects of the adoption of the Instruction.

**Implementation effects of the instructions regarding employee rights.** Starting with January 1, 2015, the Bank implements the instruction regarding employee rights. The instruction is implemented by way of retroactive implementation of the comparative data for periods beginning January 1, 2013 and thereafter.

It should be noted that Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of four years. Respectively, an amount comprising 60% was deducted on January 1, 2016, an additional amount was deducted on January 1, 2017, comprising 20%, and the balance will be deducted in 2018.



**Relief regarding the efficiency plan.** The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis – see Note 25 D to the financial statements as of December 31, 2016) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 37 million have been amortized to March 31, 2017. For further details regarding the Bank's efficiency plan, see "Efficiency of the banking industry" in the 2016 Annual Report (pp. 26-27) and Note 23 J to the financial statements as of December 31, 2016 (pp. 214-215).

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

**The effect of adoption of the Directive on the relief regarding the efficiency plan and on ratio of common equity tier 1 - short-term effect.** The transitional instructions stated in the Directive determine a gradual adoption of the more stringent requirements included therein. The Bank estimates that had the guidelines of the Directive been implemented as of March 31, 2017, on the basis of the data for that date and the transitional instructions as would apply on March 31, 2018, including the impact of the implementation of the instruction regarding employee rights, without the consideration of income accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.1%.

**Long-term effect.** The Bank estimates that had the guidelines included in the Directive been implemented in full as of March 31, 2017, on the basis of the data for this date, and without taking into account the provisional instructions and without taking into consideration the relief regarding the efficiency plan and current profits, the ratio of common equity tier 1 would have declined by 0.2%.

It should be emphasized that the data presented above, as an estimate of the short and long-term effect, forms an estimate only. Moreover, the said estimates assume a situation of static existence of the data as of March 31, 2017, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as a result of the accumulation of current earnings and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result will inevitably be different than from the estimates stated above.

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

## COMMON EQUITY TIER 1 GOAL

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

The Bank has adopted a capital outline for the gradual increase in the Common Equity Tier 1 goal up to a level of 10% at the end of 2019.

For details regarding capital planning, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for viewing on the Internet.

## COMPONENTS OF CAPITAL

**Total capital** as at March 31, 2017, totalled NIS 15,185 million, compared with NIS 14,936 million at the end of 2016, an increase of 1.7%.

**Equity attributed to the Bank's shareholders** as at March 31, 2017, totalled NIS 14,754 million, compared with NIS 14,512 million at the end of 2016, an increase of 1.7%. The change in equity attributed to the Bank's shareholders in the first three months of 2017 was affected, among other things, by the net earnings during the period, by a decrease of NIS 16 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect, from the exercise of option warrants during the reported period in the amount of NIS 114 million and from a decrease of NIS 190 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 33 million.

**The ratio of total capital to total assets**, as at March 31, 2017, reached a rate of 6.9%, compared with 6.8% at the end of 2016.



## COMPONENTS OF THE REGULATORY CAPITAL AS OF MARCH 31, 2017

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

**Ratio of common equity tier 1** as of March 31, 2017, amounted to 9.7%, compared with 9.8% on December 31, 2016.

**Total capital ratio** as of March 31, 2017, amounted to 13.9%, compared with 13.8% on December 31, 2016.

### Components of the regulatory capital as of March 31, 2017

	March 31, 2017	December 31, 2016	December 31, 2016
	in NIS millions		
<b>1. Capital for Calculating ratio of capital</b>			
Common equity tier 1 after deductions	15,157	13,596	15,036
Additional tier 1 capital after deductions	890	1,068	1,068
Tier 1 capital	16,046	14,664	16,104
Tier 2 capital	5,588	5,205	5,020
<b>Total capital</b>	<b>21,635</b>	<b>19,869</b>	<b>21,124</b>
<b>2. Weighted risk assets balance</b>			
Credit risk	<sup>(2)</sup> 139,360	128,497	<sup>(2)</sup> 137,393
Market risk	3,127	3,129	2,483
CVA risk	1,277	1,019	942
Operational risk	12,135	12,192	12,072
<b>Total weighted risk assets balance</b>	<b>155,899</b>	<b>144,837</b>	<b>152,890</b>
<b>3. Ratio of capital to risk assets</b>			
Ratio of common equity tier 1 to risk assets	9.7	9.4	9.8
Ratio of total capital to risk assets	13.9	13.7	13.8
<b>Ratio of minimum capital required by the Supervisor of Banks</b>			
Ratio of common equity tier 1	<sup>(1)</sup> 9.2	<sup>(1)</sup> 9.1	<sup>(1)</sup> 9.2
Total capital ratio	<sup>(1)</sup> 12.7	<sup>(1)</sup> 12.6	<sup>(1)</sup> 12.7

Footnotes:

(1) With an addition of 0.17% (March 31, 2016: 0.08% ,December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 (b) to the condensed financial statements.

(2) The total weighted balances of the risk assets have been reduced by NIS 82 million (December 31,2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

The growth in the Tier 2 capital was affected by the issue of subordinated debt notes (Series "L"), see above in "Management's handling of current material issues".

## RAISING OF RESOURCES

**Subtraction of regulatory capital instruments in 2017.** Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2022. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2022. Regulatory capital instruments, which are to be subtracted in the course of April-December 2017, in accordance with the transitional provisions, amount to NIS 295 million.

NIS 432 million were deducted in the first three months of 2017 (of which an amount of NIS 92 million would have been deducted also in accordance with the Basel II instructions).

Despite the subtraction of supervisory capital instruments (tier 2 capital) as stated, according to the Bank's work plan for the year 2017, the raising of tier 2 capital in order to reach the overall capital goals for 2017, over and above the COCO's issue at the beginning of January 2017, as stated in "Management's handling of current material issues" above, is not required.

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

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

## **DIVIDENDS DISTRIBUTION**

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Following adherence to the strategic plan outline and the improvement in the business results of the Group, and following the presentation of a revised multiannual strategic plan and a revised multiannual capital plan, during 2017, the Bank's Board of Directors intends to examine the adoption of a dividend distribution policy, in accordance with fulfillment of the work plan, available capital and the future growth potential.

The Banking Supervision Department has given its approval in principle to a dividend distribution outline presented to it.

It should be emphasized that nothing in the aforesaid should be taken as obligating the Bank to adopt a dividend policy, its contents or the timing of its approval, if at all.

For details regarding the limitations set in the Supervisor of Banks' directives, see the 2016 Annual Report (p. 217).

## **ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATION – PRINCIPAL QUANTITATIVE DATA AND MAIN DEVELOPMENTS**

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### **GENERAL**

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

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

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

Concise data regarding operations in the various segments is presented in Notes 12 and 13 to the condensed financial statements, pp. 137-147 below.

For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal assumptions, estimates and principles used in the preparation of segment information, see Note 29 to the financial statements as of December 31, 2016 (pp. 249-251).

## HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS)

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

**The segment's loss** in the first three months of 2017 amounted to NIS 82 million, compared to a loss in the amount of 116 million in the corresponding period last year.

**The credit loss expenses** in this segment in the first three months of 2017 amounted to NIS 72 million, compared to NIS 33 million in the corresponding period last year, an increase at a rate of 118.2%. The growth stemmed from the growth in the group allowance, mostly due to the growth in the volume of credit.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	687	616	2,629
Credit loss expenses	72	33	216
Total Operating and other expenses	723	716	2,871
Loss Attributed to the bank's shareholders	(82)	(116)	(405)

### DEVELOPMENTS IN THE SEGMENT

In the first quarter of 2017, the gradual process continued for removing operational activities from the branches and in the streamlining of work processes at the branches aimed at giving bank tellers the time to strengthen the contact with customers and to improve the service experience and the sales with customers. The integration in 7 additional branches was completed by the end of the first quarter, this in addition to 75 branches, where integration was completed in the course of 2016.

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

## PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS)

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

**The loss** of the segment in the first three months of 2017, did not change materially, and it remained in a negligible amount.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	30	34	112
Credit loss expenses	-	-	1
Total Operating and other expenses	31	34	120
Loss Attributed to the bank's shareholders	(1)	-	(8)

## DEVELOPMENTS IN THE SEGMENT

As part of the risk management in the foreign residents sector, during the first quarter of 2016, measures commenced of concentrating customers of the Bank holding passive balances of US\$1 million and over at the international private banking center. For further details, see the 2016 Annual Report (p. 52).

**Reorganization of service to affluent customers.** As part of the focusing on the improvement of service provided to affluent customers, as well as, inter alia, on the background of the efficiency measures at the Bank, it has been decided to merge the private banking department, transferred to the Banking Division, together with other units dealing with customer deposits and with enforcement into a new department - the investments and affluent customer department, established in January 2017. A new service layout will be established within the new department, which will provide response, in particular regarding investments to all the Bank's affluent customers in accordance with segmentation. Moreover, the new department would be responsible for enforcement matters of the Banking Division regarding investment consulting and pension consulting.

Private banking continues to operate in its present form until formation and completion of structure of the department.

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

## SMALL AND MINUTE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

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

**The net gain** in the first three months of 2017 amounted to 79 million, compared to an amount of NIS 44 million in the corresponding period last year, an increase at a rate of 79.5%.

**The credit loss expenses** in this segment in the first three months of 2017 amounted to NIS 46 million, compared to NIS 45 million in the corresponding period last year.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	506	449	1,922
Credit loss expenses	46	45	90
Total Operating and other expenses	332	323	1,364
Net Profit Attributed to the bank's shareholders	79	44	265

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

## MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

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

**The net gain** in the first three months of 2017 amounted to NIS 23 million, compared to an amount of 12 million in the corresponding period last year, an increase at a rate of 91.7%.

**The credit loss expenses** in this segment in the first three months of 2017 amounted to NIS 6 million, compared to NIS 21 million in the corresponding period last year, a decrease at a rate of 71.4%.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	102	110	439
Credit loss expenses	6	21	46
Total Operating and other expenses	59	67	289
Net Profit Attributed to the bank's shareholders	23	12	58

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

**LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)****SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT**

**The net gain** in the first three months of 2017 amounted to NIS 65 million, compared to an amount of NIS 120 million in the corresponding period last year, a decrease at a rate of 42.3%.

**The credit loss expenses** in this segment in the first three months of 2017 amounted to expenses reversal of NIS 3 million, compared to expenses reversal of NIS 72 million in the corresponding period last year.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	176	175	694
Credit loss expenses reversal	3	(72)	(40)
Total Operating and other expenses	69	63	306
Net Profit Attributed to the bank's shareholders	65	120	268

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

**INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS)****SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT**

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

**The segment's loss** in the first three months of 2017 amounted to NIS 5 million, compared with a loss of NIS 4 million in the corresponding period last year.

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
in NIS millions			
Total income	12	12	49
Credit loss expenses	-	-	30
Total Operating and other expenses	18	17	75
Loss Attributed to the bank's shareholders	(5)	(4)	(38)

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

**FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS)****SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT**

**The net gain** in the first three months of 2017 amounted to NIS 179 million, compared to an amount of NIS 66 million in the corresponding period last year. The growth in profits stemmed, inter alia, from the realization of investments in Discount Capital. For further details, see "Non-financial investments" below under "Activity of the Group by regulatory operating segments – additional details".

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

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
in NIS millions			
Total income	341	180	1,182
Total Operating and other expenses	66	54	255
Net Profit Attributed to the bank's shareholders	179	66	573

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

**INTERNATIONAL OPERATIONS SEGMENT****SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT**

**The net gain** in the first three months of 2017 amounted to NIS 45 million, compared to NIS 57 million in the corresponding period last year, a decrease at a rate of 21.1%.

**The credit loss expenses** in this segment in the first three months of 2017 amounted to NIS 18 million, compared to NIS 19 million in the corresponding period last year.

**Principal data regarding the International operations segment**

	For the three months ended March 31,		For the year ended December 31,
	2017	2016	2016
	in NIS millions		
Total income	226	255	969
Credit loss expenses	18	19	126
Total Operating and other expenses	134	143	534
Net Profit Attributed to the bank's shareholders	45	57	192

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

**DEVELOPMENTS IN THE SEGMENT**

**IDB (Swiss) Bank – in liquidation.** For details, see the 2016 Annual Report (p. 56).

**MAIN INVESTEE COMPANIES**

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 173 million in the first three months of 2017, compared to NIS 140 million in the corresponding period last year, and an income of NIS 665 million in all of 2016.

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

**DISCOUNT BANCORP, INC.**

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

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

	In US\$ millions		
	March 31, 2017	December 31, 2016	Change in %
<b>Balance sheet items</b>			
Total assets	9,314	9,272	0.5
Total credit	5,680	5,654	0.5
Total deposits	7,380	7,329	0.7
Total equity	892	891	0.1
Ratio of total capital to risk assets	14.4%	14.2%	
<b>Profit and loss statement items for the three months ended March 31</b>	<b>2017</b>	<b>2016</b>	
Net profit attributed to the shareholders	16	16	-
Return on equity	7.4%	7.6%	

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

**The contribution of Bancorp to the Bank's net results** reached a profit of NIS 53 million in the first quarter of 2017 (after deducting a provision for taxes of NIS 6 million), compared with NIS 51 million in the first quarter of 2016 (after deducting a provision for taxes of NIS 9 million).

**Distribution of dividend.** In March 2017, Bancorp distributed to Discount Bank a dividend in the amount of US\$15 million.

**Change of President & CEO.** On May 1, 2017, Mr. Uri Levin started his service as President & CEO of IDB New York, in place of Mr. Ehud Arnon.

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

Annual and quarterly financial data is available for review on the Internet website of FDIC.

## MERCANTILE DISCOUNT BANK LTD.

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

### Mercantile Discount Bank – principal data

	In NIS millions		
	March 31, 2017	December 31, 2016	Change in %
Balance sheet items			
Total assets	32,568	32,164	1.3
Total credit to the public, net	22,717	22,001	3.3
Total deposits from the public	27,622	27,199	1.6
Total equity	2,298	2,244	2.4
Ratio of total capital to risk assets	13.4%	13.8%	-
Profit and loss statement items for the three mounts ended March 31			
	2017	2016	
Net profit attributed to the shareholders	41	45	(8.9)
Return on equity	7.5%	8.8%	

**The principal factors affecting the business results.** The income in the first three months of 2017 was affected, inter alia, from an increase of NIS 11 million in interest income; by an increase of NIS 37 million in credit loss expenses and from a decrease of NIS 3 million in operating and other expenses.

**The ratio of capital to risk assets.** The Board of Directors of MDB updated on March 28, 2017, the minimum rates of capital adequacy ratios, as follows: the Tier I equity capital ratio shall not be lower than 9.5% (December 31, 2016 – 9.2%); the comprehensive capital adequacy ratio shall not be lower than 13.0% (December 31, 2016 – 12.7%).

For details regarding the strategic plan of MDB and the main projects to be carried out within the framework thereof, see the 2016 Annual Report (pp. 59-60).

For details regarding lawsuits and motions for approval of the lawsuits as class action suits, in the matter of: a unilateral increase in the interest rate on credit taken within an approved credit facility, the charging of a commission with respect to operations of conversion and transfer of foreign currency, and the charging of commission fees not included in the full tariff to customers who are not considered a "small business", see Note 26 C, items 12.5, 12.7 and 12.8, to the financial statements as of December 31, 2016, respectively (p. 234) and Note 10 B, item 4.2 to the condensed financial statements.

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



## ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of March 31, 2017, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

### Israel Credit Cards – principal data

	In NIS millions		
	March 31, 2017	December 31, 2016	Change in %
Balance sheet items			
Total assets	13,083	12,416	5.4
Total equity	1,523	1,504	1.3
Ratio of total capital to risk assets	15.4%	15.8%	
Profit and loss statement items for the three months ended March 31	2017	2016	
Total Income	361	317	13.9
Net profit attributed to the shareholders	50	46	8.7
The contribution to the Bank's business results	34	30	13.3
Return on equity	13.8%	15.7%	

The business results of ICC for the reported period were mainly affected by the rise in income of NIS 43 million (13.5%), principally income from credit card transactions (NIS 20 million 8.6%) and net interest income (NIS 20 million; 25.7%), as a result of the growth in volume of consumer credit. On the other hand, an increase occurred in credit loss expenses (NIS 13 million ;107.7%), stemming mostly from the growth in the retail credit portfolio of the company and from a reduction in the collection rate, from an increase in operating expenses (NIS 13 million; 12.7%) stemming mostly from the growth in payments to international organizations, and from an increase in sales and marketing expenses (NIS 14 million; 23.1%) stemming mostly from the growth in customer attraction and retention.

**Strategic plan.** With the assistance of external consultants, ICC has formed in recent months a strategic plan for the years 2017-2021. The plan took into consideration the changes expected to take place in the credit card market, in view of the enactment of the Increase in Competition and the Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel Act, 2016. In the opinion of Management of ICC, the implementation of the strategic plan would enable it to deal, in the best possible manner, with the challenges of the financial market in Israel in the coming years. It should be noted, that the success of the plan depends on a number of factors, the realization of which is not certain. The plan is subject to approval by the Board of Directors of ICC. For additional details, see the 2016 Annual Report (pp. 61-62).

**Distribution of dividend.** In March 2017, ICC distributed a dividend in the amount of NIS 30 million (the Bank's share amounting to NIS 21.5 million).

For details regarding activity in the credit card field in Israel, see in the 2016 Annual Report (pp. 307-311, 385-389) in the chapter "Corporate governance, audit and additional details regarding the business of the Banking Corporation and management thereof", and Note 17 to the condensed financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, with respect of the following matters: the marketing of gift cards, the granting of credit by means of the "Active" credit card, allegation of a restrictive arrangement in the field of immediate debit cards ("debit"), see Note 26 C to the financial statements as of December 31, 2016, items 12.2, 12.6, and 13.3 respectively (pp. 233, 234 and 236) and Note 10 B items 4.1 and 5.2 to the condensed financial statements.

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

## DISCOUNT CAPITAL LTD. (FORMERLY KNOWN AS: ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.)

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

### Discount Capital – principal data

Balance sheet items	In NIS millions		Change in %
	March 31, 2017	December 31, 2016	
Total assets	1,349.2	1,288.3	4.7
Total equity	552.8	494.3	11.8
<b>Profit and loss statement items for the first three months of</b>			
	2017	2016	
Net profit attributed to the shareholders	58.5	0.6	
The contribution to the Bank's business results <sup>(1)</sup>	49.7	5.0	

Footnote:

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

The results for the first quarter were mainly affected by the realization of investments. For further details, see "Non-financial companies" below under "Activity of the Group by regulatory operating segments – additional details".

In the first three months of 2017, Discount Capital participated, via its subsidiary, in 35 public offerings (1 on behalf of the Bank) and in 7 private offerings, amounting to NIS 14.7 billion. This, compared with 11 public offerings and 3 private placements (of which – 2 on behalf of the Discount Group), amounting to NIS 6.3 billion, in the corresponding period last year.

## CHAPTER "C" – RISKS REVIEW

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

#### RISK PROFILE OF THE DISCOUNT GROUP

For details regarding the risk profile of the Discount Group, see the 2016 Annual Report (pp. 63-64). For details regarding Risk Management Principles, see the 2016 Annual Report (pp. 64-67).

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

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management, as well as in other fields. Qualitative and quantitative disclosure regarding the various risks above and below in this Chapter, is presented in the 2016 Annual Report (pp. 63-103) and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2016 annual report together with the Report for the first quarter of 2017 (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## CREDIT RISKS

### CREDIT RISKS AND THE MANNER OF MANAGEMENT THEREOF

For details regarding Credit risks and the manner of management thereof, see the 2016 annual report (pp. 67-68).

### CREDIT QUALITY AND PROBLEMATIC CREDIT RISK

#### Problematic credit risk and non performing assets

	March 31, 2017		December 31, 2016			
			Credit Risk			
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
<b>Problematic Credit Risk<sup>(1)</sup>:</b>						
Impaired credit risk	<sup>(3)</sup> 2,689	165	2,854	<sup>(3)</sup> 3,053	187	3,240
Substandard credit risk <sup>(2)</sup>	683	9	692	572	6	578
Special mention credit risk <sup>(2)</sup>	1,397	248	1,645	1,557	289	1,846
<b>Total Problematic Credit Risk</b>	<b>4,769</b>	<b>422</b>	<b>5,191</b>	<b>5,182</b>	<b>482</b>	<b>5,664</b>
Of which: Non impaired debts, in arrears for 90 days or more <sup>(2)</sup>	409			440		
<b>Non-performing assets:</b>						
Impaired debts - non accruing interest income	2,241			2,504		
Assets received in respect of credit settlement	-			2		
<b>Total Non-Performing Assets</b>	<b>2,241</b>			<b>2,506</b>		

Footnotes:

- (1) Impaired credit, substandard credit and credit under special mention risks.
- (2) Including in respect of housing loans for which an allowance based on the extent of arrears exists and in respect of housing loans that are in arrears for 90 days or more for which an allowance based on the extent of arrears does not exist.
- (3) Including non accruing corporate bonds in an amount of NIS 17 million, and non accruing bank bonds of NIS 32 million (December 31, 2016- non accruing corporate bonds in an amount of NIS 17 million, and non accruing bank bonds of NIS 93 million).

#### Changes in balances of impaired debts

	Three months ended March 31	
	2017	2016
	In NIS millions	
<b>Change in impaired debts (In respect of credit to the public only):</b>		
Balance of impaired debts at the beginning of the year	2,943	2,944
Debts classified as impaired during the period	138	98
Debts no longer classified as impaired <sup>(1)</sup>	(96)	(8)
Accounting write-offs	(164)	(57)
Collections	(175)	(185)
Other	(6)	12
<b>Balance of impaired debts as of</b>	<b>2,640</b>	<b>2,804</b>
<sup>(1)</sup> Of which: due to consequent restructure	-	-

#### Changes in allowances for credit losses on impaired debts:

Balance of allowance for credit losses at the beginning of the year	389	463
Increase in allowances	39	54
Collections and write-offs	(142)	(33)
<b>Balance of allowance for credit losses as of</b>	<b>283</b>	<b>484</b>

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

	March 31, 2017	March 31, 2016	December 31, 2016
Ratio of balance of impaired credit to the public to balance of credit to the public	1.8%	2.1%	2.1%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.3%	0.3%	0.3%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.4%	1.6%	1.5%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	79.1%	73.8%	72.9%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.3%	2.5%	2.5%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms)	0.40%	0.14%	0.34%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)	0.5%	0.1%	0.3%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public (in annualized terms)	37.0%	8.9%	18.1%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	68.5%	64.7%	63.4%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	2.1%	2.4%	2.4%

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

March 31, 2017										
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>						
				Credit Losses <sup>(4)</sup>						
								Net	Accounting	Balance of
								Periodic	Write-Offs	Allowance
								Credit	Recognized	for Credit
								Loss	during the	Losses
								Expenses	Period	
				in NIS millions						
Lending Activity in Israel										
Agriculture	1,471	1,388	16	1,470	1,005	15	7	3	1	20
Mining & Quarrying	1,223	1,215	1	1,220	414	-	-	1	-	2
Industry	13,764	12,753	461	13,641	9,412	461	206	(14)	(11)	248
Construction and Real Estate - Construction	<sup>(6)</sup> 23,732	23,059	411	<sup>(6)</sup> 23,696	10,050	411	195	(16)	(5)	172
Construction and Real Estate - Real Estate Activity	9,192	8,673	299	9,106	8,018	299	260	(1)	1	92
Electricity and Water	3,211	3,197	2	2,654	1,823	1	1	-	-	5
Commerce	19,341	17,488	820	19,186	15,459	800	261	47	11	397
Hotels, Hotel Services and Food	2,090	1,803	219	2,073	1,779	219	193	-	(1)	16
Transportation and Storage	5,541	5,353	45	5,490	4,738	41	28	4	6	56
Communication and Computer Services	2,713	2,189	480	2,676	2,018	480	445	40	112	115
Financial Services	10,356	9,667	649	9,006	7,250	649	646	-	-	128
Other Business Services	6,828	6,277	83	6,823	4,931	83	43	10	8	67
Public and Community Services	3,021	2,857	39	3,017	2,156	39	13	3	1	16
<b>Total Commercial</b>	<b>102,483</b>	<b>95,919</b>	<b>3,525</b>	<b>100,058</b>	<b>69,053</b>	<b>3,498</b>	<b>2,298</b>	<b>77</b>	<b>123</b>	<b>1,334</b>
Private Individuals - Housing Loans	28,474	27,588	309	28,474	26,393	309	-	4	2	169
Private Individuals - Other	52,451	49,738	447	52,440	26,690	447	65	67	58	463
<b>Total Public</b>	<b>183,408</b>	<b>173,245</b>	<b>4,281</b>	<b>180,972</b>	<b>122,136</b>	<b>4,254</b>	<b>2,363</b>	<b>148</b>	<b>183</b>	<b>1,966</b>
Banks in Israel	1,182	1,178	-	732	557	-	-	-	-	-
Israeli Government	24,207	24,207	-	1,965	609	-	-	-	-	-
<b>Total Lending Activity in Israel</b>	<b>208,797</b>	<b>198,630</b>	<b>4,281</b>	<b>183,669</b>	<b>123,302</b>	<b>4,254</b>	<b>2,363</b>	<b>148</b>	<b>183</b>	<b>1,966</b>

For footnotes see next page.

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

March 31, 2017										
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>						
				Credit Losses <sup>(4)</sup>						
								Net		
								Accounting		
								Periodic	Write-Offs	Balance of
								Credit	Recognized	Allowance
								Loss	during the	for Credit
Total <sup>(9)</sup>	Credit Performance Rating <sup>(10)</sup>	Problematic <sup>(5)</sup>		Total	Of which: Debts <sup>(2)(11)</sup>	Problematic <sup>(5)</sup>	Impaired	Expenses	Period	Losses
in NIS millions										
Lending Activity Outside of Israel										
Agriculture	30	30	-	30	30	-	-	-	-	-
Mining & Quarrying	216	216	-	116	-	-	-	-	-	-
Industry	5,299	4,971	190	4,999	2,647	190	23	(4)	4	40
Construction and Real Estate - Construction	186	149	34	186	153	34	34	(2)	(1)	5
Construction and Real Estate - Real Estate Activity	10,065	9,664	109	10,009	7,770	109	49	6	(3)	120
Electricity and Water	476	466	10	192	133	10	-	2	-	2
Commerce	6,900	6,464	246	6,896	4,244	246	207	-	(1)	53
Hotels, Hotel Services and Food	1,213	1,161	52	1,210	1,160	52	-	-	-	13
Transportation and Storage	1,084	1,019	63	1,020	997	51	12	(5)	-	10
Communication and Computer Services	547	526	21	193	128	21	20	(2)	3	11
Financial Services	10,460	10,364	88	2,436	1,590	88	71	(1)	-	19
Of which: Federal agencies in the U.S. <sup>(7)</sup>	7,752	7,752	-	-	-	-	-	-	-	-
Other Business Services	575	575	-	571	314	-	-	(4)	-	4
Public and Community Services <sup>(8)</sup>	4,558	4,405	60	3,043	2,745	60	25	6	8	17
Total Commercial	41,609	40,010	873	30,901	21,911	861	441	(4)	10	294
Private Individuals - Housing Loans	160	152	3	160	154	3	-	-	-	1
Private Individuals - Other	1,930	1,927	1	1,928	1,347	-	-	1	-	15
Total Public	43,699	42,089	877	32,989	23,412	864	441	(3)	10	310
Banks Outside of Israel	6,548	6,516	33	4,175	3,981	-	-	-	-	-
Governments Outside of Israel	1,395	1,395	-	186	186	-	-	-	-	-
Total Lending Activity Outside of Israel										
	51,642	50,000	910	37,350	27,579	864	441	(3)	10	310
TOTAL	260,439	248,630	5,191	221,019	150,881	5,118	2,804	145	193	2,276

## Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts<sup>(2)</sup>, 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 150,881, 35,237, 369, 3,034, 70,918 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 and assets in respect of the "MAOF" market activity agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 189 millions.
- (7) Including mortgage backed securities in the amount of NIS 6,017 millions, issued by GNMA and in the amount of NIS 1,735 millions, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,267 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 258 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.

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

March 31, 2016										
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>						
	Total <sup>(1)(9)</sup>	Credit Performance Rating <sup>(10)</sup>	Problematic <sup>(5)</sup>	Total	Of which: Debts <sup>(2)(11)</sup>	Problematic <sup>(5)</sup>	Impaired Expenses	Credit Losses <sup>(4)</sup>		
								Periodic Credit Loss	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions										
Lending Activity in Israel										
Agriculture	1,420	1,383	13	1,419	968	13	7	(4)	(1)	19
Mining & Quarrying	553	431	1	553	368	-	-	-	-	1
Industry	14,106	12,535	442	13,973	9,248	443	283	(31)	(34)	225
Construction and Real Estate - Construction	<sup>(6)</sup> 16,586	15,940	436	<sup>(6)</sup> 16,572	6,452	436	141	6	1	134
Construction and Real Estate - Real Estate Activity	11,679	10,784	607	11,591	9,677	574	264	(3)	5	150
Electricity and Water	3,363	3,232	90	2,937	1,973	89	9	1	-	5
Commerce	17,577	16,450	682	17,456	13,958	683	543	(1)	6	391
Hotels, Hotel Services and Food	1,843	1,488	226	1,826	1,532	227	187	1	1	17
Transportation and Storage	4,602	4,384	94	4,518	3,725	89	54	6	(1)	73
Communication and Computer Services	3,051	2,190	792	2,973	1,672	792	686	2	1	179
Financial Services	9,436	9,019	114	8,205	6,509	113	110	13	-	108
Other Business Services	6,134	5,878	77	6,125	4,183	77	44	(5)	-	54
Public and Community Services	2,624	2,532	21	2,622	1,917	21	4	2	1	9
Total Commercial	92,974	86,246	3,595	90,770	62,182	3,557	2,332	(13)	(21)	1,365
Private Individuals - Housing Loans	24,341	23,734	336	24,341	22,335	336	-	4	9	170
Private Individuals - Other	46,795	46,182	338	46,780	23,019	337	60	29	24	398
Total Public	164,110	156,162	4,269	161,891	107,536	4,230	2,392	20	12	1,933
Banks in Israel	1,771	1,771	-	1,190	824	-	-	-	-	1
Israeli Government	24,053	24,053	-	1,760	510	-	-	-	-	-
Total Lending Activity in Israel	189,934	181,986	4,269	164,841	108,870	4,230	2,392	20	12	1,934

For footnotes see next page.

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

March 31, 2016											
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>							
				Credit Losses <sup>(4)</sup>							
								Net Accounting	Periodic Credit Loss	Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
Total <sup>(9)</sup>	Credit Performance Rating <sup>(10)</sup>	Problematic <sup>(5)</sup>		Total	Of which: Debts <sup>(2)(11)</sup>	Problematic <sup>(5)</sup>	Impaired	Expenses			
in NIS millions											
Lending Activity Outside of Israel											
Agriculture	32	32	-	32	32	-	-	-	-	-	
Mining & Quarrying	340	312	-	112	-	-	-	-	-	-	
Industry	5,900	5,486	<sup>(12)</sup> 114	5,321	2,966	113	28	(1)	-	38	
Construction and Real Estate - Construction	125	125	-	125	75	-	-	-	-	1	
Construction and Real Estate - Real Estate Activity	9,868	9,268	<sup>(12)</sup> 291	9,760	7,946	311	247	7	-	110	
Electricity and Water	108	97	-	64	42	-	-	-	-	-	
Commerce	7,337	7,153	155	7,233	4,766	155	37	17	30	54	
Hotels, Hotel Services and Food	920	880	39	920	867	39	39	(10)	4	6	
Transportation and Storage	1,050	1,023	18	1,037	801	5	5	1	-	8	
Communication and Computer Services	878	837	26	397	300	26	26	-	-	23	
Financial Services	11,203	11,098	87	2,676	1,610	88	85	2	-	24	
Of which: Federal agencies in the U.S. <sup>(7)</sup>	7,976	7,976	-	-	-	-	-	-	-	-	
Other Business Services	479	478	-	470	233	-	-	11	-	14	
Public and Community Services <sup>(8)</sup>	<sup>(8)</sup> 4,771	4,692	-	2,878	2,584	-	-	-	-	24	
Total Commercial	43,011	41,481	730	31,025	22,222	737	467	27	34	302	
Private Individuals - Housing Loans	153	144	4	153	147	4	-	-	-	1	
Private Individuals - Other	2,217	2,217	-	2,214	1,367	-	-	-	-	14	
Total Public	45,381	43,842	734	33,392	23,736	741	467	27	34	317	
Banks Outside of Israel	8,404	8,390	<sup>(12)</sup> 94	4,817	4,617	-	-	(1)	-	1	
Governments Outside of Israel	1,132	1,132	<sup>(12)</sup> -	14	14	-	-	-	-	-	
Total Lending Activity Outside of Israel											
	54,917	53,364	828	38,223	28,367	741	467	26	34	318	
TOTAL	244,851	235,350	5,097	203,064	137,237	4,971	2,859	46	46	2,252	

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 137,237, 37,183, 183, 3,761, 66,826 million, respectively.
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 316 millions.
- (7) Including mortgage backed securities in the amount of NIS 5,628 millions, issued by GNMA and in the amount of NIS 2,348 millions, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,100 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 248 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) Following the adjustment of the treatment of bonds to the treatment of problematic debts in general, as of July 1, 2016, bonds were eliminated from the balance in which they had been included in the past (in the amounts of NIS 82 million, NIS 127 million, NIS 28 million, respectively; see "Securities" above).

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

December 31, 2016										
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>						
				Credit Losses <sup>(4)</sup>						
				Net						
				Accounting						
				Periodic Write-Offs						
				Credit Recognized						
				Loss during the						
				Period						
				allowance						
				for credit						
				loss						
in NIS millions										
Lending Activity in Israel										
Agriculture	1,462	1,413	13	1,461	1,001	13	6	(2)	1	19
Mining & Quarrying	734	726	1	734	433	1	-	(3)	(3)	1
Industry	13,608	12,957	482	13,481	8,911	482	228	(12)	(36)	249
Construction and Real Estate - Construction	<sup>(6)</sup> 22,308	21,632	438	<sup>(6)</sup> 22,283	9,122	438	210	(4)	(28)	185
Construction and Real Estate - Real Estate Activity	9,554	9,182	302	9,460	8,081	302	268	(90)	(55)	94
Electricity and Water	3,180	3,171	1	2,709	1,834	-	-	-	-	5
Commerce	19,105	17,788	869	18,982	15,388	848	263	164	191	358
Hotels, Hotel Services and Food	1,868	1,538	257	1,853	1,549	257	171	1	7	17
Transportation and Storage	5,573	5,464	51	5,543	4,709	47	34	6	12	61
Communication and Computer Services	2,910	2,225	624	2,887	2,179	624	582	58	46	187
Financial Services	9,630	8,291	671	8,662	6,904	671	667	27	(6)	127
Other Business Services	6,381	5,935	101	6,368	4,495	101	57	19	13	64
Public and Community Services	2,920	2,814	31	2,917	2,051	31	13	12	6	14
Total Commercial	99,233	93,136	3,841	97,340	66,657	3,815	2,499	176	148	1,381
Private Individuals - Housing Loans	27,601	26,625	320	27,601	25,610	320	-	8	16	167
Private Individuals - Other	51,275	48,921	440	51,266	25,895	440	61	207	146	454
Total Public	178,109	168,682	4,601	176,207	118,162	4,575	2,560	391	310	2,002
Banks in Israel	1,207	1,205	-	374	130	-	-	(1)	-	-
Israeli Government	24,962	24,962	-	2,106	618	-	-	-	-	-
Total Lending Activity in Israel	204,278	194,849	4,601	178,687	118,910	4,575	2,560	390	310	2,002

For footnotes see next page.



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

December 31, 2016										
Total Credit Risk <sup>(1)</sup>				Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup>						
				Credit Losses <sup>(4)</sup>						
								Periodic	Net Accounting	Balance
								Credit	Write-Offs	of
								Loss	Recognized	allowance
								during the	for credit	
								Period	loss	
Total <sup>(9)</sup>	Credit Performance Rating <sup>(10)</sup>	Problematic <sup>(5)</sup>		Total	Of which: Debts <sup>(2)(11)</sup>	Problematic <sup>(5)</sup>	Impaired	Expenses		
in NIS millions										
Lending Activity Outside of Israel										
Agriculture	32	32	-	32	32	-	-	-	-	-
Mining & Quarrying	331	331	-	111	-	-	-	-	-	-
Industry	6,040	5,774	175	5,352	2,815	175	16	47	36	51
Construction and Real Estate - Construction	227	176	45	227	171	45	45	4	-	5
Construction and Real Estate - Real Estate Activity	9,957	9,592	149	9,893	8,011	149	83	(13)	(25)	117
Electricity and Water	523	513	10	204	27	10	-	-	-	-
Commerce	7,545	7,171	236	7,541	4,692	236	230	19	32	56
Hotels, Hotel Services and Food	1,270	1,169	101	1,270	1,217	101	46	19	23	13
Transportation and Storage	1,116	1,050	66	1,041	1,017	52	13	6	-	13
Communication and Computer Services	834	808	26	204	138	26	26	(8)	-	16
Financial Services	11,433	11,331	95	2,735	1,707	95	75	8	10	21
Of which: Federal agencies in the U.S. <sup>(7)</sup>	8,117	8,117	-	-	-	-	-	-	-	-
Other Business Services	740	719	22	733	485	22	-	1	-	8
Public and Community Services <sup>(8)</sup>	4,775	4,680	36	3,152	2,831	36	36	(4)	-	21
Total Commercial	44,823	43,346	961	32,495	23,143	947	570	79	76	321
Private Individuals - Housing Loans	160	149	8	160	154	8	-	-	-	1
Private Individuals - Other	2,107	2,104	1	2,102	1,445	-	-	2	1	15
Total Public	47,090	45,599	970	34,757	24,742	955	570	81	77	337
Banks Outside of Israel	7,982	7,890	93	5,218	4,960	-	-	(2)	-	-
Governments Outside of Israel	1,613	1,613	-	119	119	-	-	-	-	-
Total Lending Activity Outside of Israel										
Israel	56,685	55,102	1,063	40,094	29,821	955	570	79	77	337
TOTAL	260.963	249.951	5.664	218.781	148.731	5.530	3.130	469	387	2.339

## Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts<sup>(2)</sup>, 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 148,731, 37,842, 440, 3,283, 70,667 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 and assets in respect of the "MAOF" market activity agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Including acquisition groups in an amount of NIS 249 millions.
- (7) Including mortgage backed securities in the amount of NIS 6,164 millions, issued by GNMA and in the amount of NIS 1,953 millions, issued by FNMA and FHLMC.
- (8) Including mainly municipal bonds and bonds of states in the U.S.
- (9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,298 million.
- (10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.
- (11) The balance of commercial debts includes housing loans in the amount of NIS 266 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

## EXPOSURE TO FOREIGN COUNTRIES – CONSOLIDATED

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

March 31, 2017

Balance sheet exposure<sup>(2)</sup>

Across the border balance sheet exposure

The Country	To governments <sup>(4)</sup>	To banks	To others
In NIS millions			
United States	388	1,362	773
United Kingdom	-	1,692	608
PIIGS <sup>(5)</sup>	-	3	6
Other	304	2,375	1,865
<b>Total exposure to foreign countries</b>	<b>692</b>	<b>5,432</b>	<b>3,252</b>
Of which - Total exposure to LDC countries	36	167	491

Notes:

- (1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
- (2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.
- (3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
- (4) Governments, official institutions and central banks.
- (5) Portugal, Ireland, Italy, Greece and Spain.
- (6) Reclassified – the presentation of the transfer of credit risk to a consortium of international insurers, in the following countries: Switzerland – an amount of NIS 3,251 million; and Germany – an amount of NIS 2,499 million, see above "Large business segment (domestic operations)".

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

As of March 31, 2017 the Bank had no such exposure.

### C. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY PROBLEMS, FOR THE PERIOD OF THREE MONTHS ENDED MARCH 31, 2017

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

As of March 31, 2017 the Bank had no such exposure.

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

As of March 31, 2017, the Bank had no such exposure.

March 31, 2017

Balance sheet exposure <sup>(2)</sup>						Off-balance sheet exposure <sup>(2)/(3)</sup>		Across the border balance sheet exposure <sup>(2)</sup>	
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country									
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
31,857	21,454	10,403	12,926	664	272	8,201	62	1,468	1,055
-	-	-	2,300	32	32	112	-	1,644	656
-	-	-	9	-	-	4	-	5	4
98	98	-	4,544	52	47	<sup>(6)</sup> 6,552	-	2,418	2,126
<b>31,955</b>	<b>21,552</b>	<b>10,403</b>	<b>19,779</b>	<b>748</b>	<b>351</b>	<b>14,869</b>	<b>62</b>	<b>5,535</b>	<b>3,841</b>
-	-	-	694	1	-	178	-	505	189

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

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

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

## EXPOSURE TO FOREIGN COUNTRIES – CONSOLIDATED (CONTINUED)

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

March 31, 2016

Balance sheet exposure<sup>(2)</sup>

Across the border balance sheet exposure

The Country	To governments <sup>(4)</sup>	To banks	To others
In NIS millions			
United States	403	1,760	1,280
United Kingdom	-	2,581	382
PIIGS <sup>(5)</sup>	-	10	10
Other	419	3,222	2,253
<b>Total exposure to foreign countries</b>	<b>822</b>	<b>7,573</b>	<b>3,925</b>
Of which - Total exposure to LDC countries	152	199	377

December 31, 2016

Balance sheet exposure<sup>(2)</sup>

Across the border balance sheet exposure

The Country	To governments <sup>(4)</sup>	To banks	To others
In NIS millions			
United States	487	1,642	1,151
United Kingdom	-	2,146	680
PIIGS <sup>(5)</sup>	-	4	8
Other	433	3,254	2,772
<b>Total exposure to foreign countries</b>	<b>920</b>	<b>7,046</b>	<b>4,611</b>
Of which - Total exposure to LDC countries	129	119	501

Notes:

- (1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.
- (2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.
- (3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.
- (4) Governments, official institutions and central banks.
- (5) Portugal, Ireland, Italy, Greece and Spain.
- (6) Reclassified – the presentation of the transfer of credit risk to a consortium of international insurers, as of March 31, 2016 in the following countries: Switzerland – an amount of NIS 1,401 million; and Germany – an amount of NIS 1,236 million.
- (7) Reclassification – The reclassification of certain balances following a re-examination of the final risk of the exposures.
- (8) Reclassified - following classification in a subsidiary.

## March 31, 2016

Balance sheet exposure <sup>(2)</sup>						Off-balance sheet exposure <sup>(2)(3)</sup>			
Balance sheet exposure to local resident customers of extensions of a banking corporation in a foreign country						Across the border balance sheet exposure <sup>(2)</sup>			
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet commercial criticized exposure	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet commercial criticized exposure	Due up to one year <sup>(8)</sup>	Due over one year <sup>(8)</sup>
In NIS millions									
32,997	21,098	11,899	15,342	396	197	(7)8,598	12	1,584	1,859
-	-	-	2,963	101	100	(7)143	-	2,321	642
-	-	-	20	-	-	11	-	12	8
230	223	7	5,901	63	56	(6)3,043	3	3,246	2,648
<b>33,227</b>	<b>21,321</b>	<b>11,906</b>	<b>24,226</b>	<b>560</b>	<b>353</b>	<b>11,795</b>	<b>15</b>	<b>7,163</b>	<b>5,157</b>
-	-	-	728	7	-	175	-	280	448

## December 31, 2016

Balance sheet exposure <sup>(2)</sup>						Off-balance sheet exposure <sup>(2)(3)</sup>			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country						Across the border balance sheet exposure <sup>(2)</sup>			
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
33,398	22,902	10,496	13,776	677	335	9,145	77	1,419	1,861
-	-	-	2,826	74	74	156	-	1,996	830
-	-	-	12	-	-	8	-	6	6
102	102	-	6,459	55	50	7,056	2	3,799	2,660
<b>33,500</b>	<b>23,004</b>	<b>10,496</b>	<b>23,073</b>	<b>806</b>	<b>459</b>	<b>16,365</b>	<b>79</b>	<b>7,220</b>	<b>5,357</b>
-	-	-	749	2	-	325	-	421	328

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

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

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

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

As of March 31, 2016 and December 31, 2016, the Bank had no such exposure.

**C. INFORMATION REGARDING THE BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY TROUBLES FOR THE PERIOD OF THREE MONTHS ENDED MARCH 31, 2016 AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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

As of March 31, 2016 and December 31, 2016, the Bank had no such exposure.

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

As of March 31, 2016 and December 31, 2016, the Bank had no such exposure.

**CREDIT EXPOSURE TO FOREIGN FINANCIAL INSTITUTIONS**

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

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

**Developments in world markets.** The economy of the Eurozone grew in the first quarter of 2017 at a rate of 1.8%. Concurrently, the inflationary environment increased and it is at a rate of 1.9%, in view of the increase in oil prices. On the background of the recovery in economic growth and the rise in the inflationary environment, the central bank reduced the volume of the monthly purchase of bonds to € 60 billion.

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

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

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

**Credit exposure to foreign financial institutions.** The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 94% of the exposure as of March 31, 2017, is to financial institutions rated "A-" rating or higher.

The states in respect of which the Bank has exposure as stated above as of March 31, 2017, include, inter-alia, the United States, Great Britain, Germany and France.

In the first quarter of 2017, no loss on impairment of securities was recorded in respect of exposure to financial institutions.

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

	Balance sheet credit risk <sup>(2)(4)(5)</sup>	Present off balance sheet credit risk <sup>(3)(4)</sup>	Present credit exposure <sup>(4)</sup>
In NIS millions			
As of March 31, 2017			
Present credit exposure to foreign financial institutions <sup>(1)(6)</sup>			
External credit rating <sup>(7)</sup>			
AAA to AA-	1,976	592	2,568
A+ to A-	2,563	487	3,050
BBB+ to BBB-	168	14	182
BB+ to B-	20	12	32
Not rated <sup>(8)</sup>	101	76	177
<b>Total present credit exposure to foreign financial institutions</b>	<b>4,828</b>	<b>1,181</b>	<b>6,009</b>
Balance of problematic bonds	32	-	32
As of December 31, 2016			
Present credit exposure to foreign financial institutions <sup>(1)(6)</sup>			
External credit rating <sup>(7)</sup>			
AAA to AA-	2,904	920	3,824
A+ to A-	3,227	257	3,484
BBB+ to BBB-	288	-	288
BB+ to B-	22	12	34
Not rated <sup>(8)</sup>	58	86	144
<b>Total present credit exposure to foreign financial institutions</b>	<b>6,499</b>	<b>1,275</b>	<b>7,774</b>
Balance of problematic bonds	93	-	93

## Notes:

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

In addition to the exposure presented in the above table, as of March 31, 2017 and December 31, 2016 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 77 million and NIS 55 million, respectively.

## CREDIT RISK IN HOUSING LOANS

**General.** The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 72 million as of March 31, 2017 and NIS 73 million as of December 31, 2016).

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

units in relation to the said demand. The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. Notwithstanding, indications exist in the local market in recent months for moderation in the demand for new apartments and in activity in the housing market in general. For details regarding the measures taken by the Group, see 2016 Annual Report (p. 80).

The volume of the Group's housing loan portfolio as of March 31, 2017, amounted to NIS 26,805 million (December 31, 2016 - NIS 26,030 million).

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

	March 31, 2017	December 31, 2016
	%	
Rate of housing loans financing over 75% of the value of the property	3.9	4.1
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	12.0	12.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio <sup>(1)</sup>	59.8	59.7

Footnote:

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

#### Amount of loans and average financing ratios

	For the three months ended March 31, 2017	For the year ended December 31, 2016
Average amount of loan (in NIS thousands)	715	712
Average financing ratio for housing loans (in %)	53.3	55.8
Average financing ratio for general purpose loans (in %)	36.3	36.6

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

	March 31, 2017		December 31, 2016	
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Credit limit (in NIS thousands)				
Up to 1,200	21,554	81.0	20,959	81.1
Between 1,200 and 4,000	4,668	17.5	4,479	17.3
Over 4,000	410	1.5	421	1.6
<b>Total</b>	<b>26,632</b>	<b>100.0</b>	<b>25,859</b>	<b>100.0</b>
Of which:				
Housing loans that were granted abroad	72		73	
Deduction of allowance for credit losses	173		171	
Housing loans <sup>(1)</sup>	258		266	

Footnote:

(1) The credit to the public includes housing loans which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction.



**Volume of problematic debts in housing credit**

As at	Balance of credit to the public <sup>(1)(5)</sup>	Balance of problematic credit <sup>(1)</sup>	Balance of allowances for credit losses <sup>(2)(3)</sup>	Ratio of problematic debt
	In NIS millions			Change in %
March 31, 2017	26,805	<sup>(4)</sup> 312	75	1.2
December 31, 2016	26,030	<sup>(4)</sup> 328	77	1.3

Footnotes:

- (1) Recorded amount.
- (2) As at March 31, 2017 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 72 million, and also an allowance over the extent of arrears in an amount of NIS 3 million (as of December 31, 2016: NIS 75 million and NIS 2 million, respectively).
- (3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 98 million as at March 31, 2017, (as at December 31, 2016: NIS 94 million).
- (4) Including an amount of NIS 29 million, defined as problematic credit, which is not in arrears (December 31, 2016: NIS 29 million).
- (5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 258 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2016: NIS 266 million).

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

	For the three months ended March 31,				For the year ended December 31,	
	2017		2016		2016	
	In NIS millions	% of total credit granted	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
<b>Loan to value (LTV) ratio<sup>(1)</sup></b>						
Up to 45%	457	29.8	325	21.1	1,693	24.2
Between 45% and 60%	593	38.6	543	35.2	2,545	36.3
Over 60%	486	31.6	674	43.7	2,770	39.5
<b>Total</b>	<b>1,536</b>	<b>100</b>	<b>1,542</b>	<b>100.0</b>	<b>7,008</b>	<b>100.0</b>

Footnote:

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

A decrease was recorded in the first quarter of 2017 in the volume of loans granted having a financing ratio of over 60% of the value of the property compared with 2016. It is noted that the component of such loans at the Bank is somewhat higher than this component of operations at the banking industry in general. However, the rate of borrowers whose ratio of repayment to their free income is in the range of 30%-40%, is lower than that of the industry.

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

	Non-linked credit <sup>(2)</sup>						CPI linked credit <sup>(2)</sup>		Foreign currency linked credit <sup>(2)</sup>		Total Housing Credit <sup>(1)(2)</sup>
	Fixed interest		Variable interest	Fixed interest		Variable interest	Fixed interest		Variable interest		
	In NIS millions	% of total Housing Credit		In NIS millions	% of total Housing Credit		In NIS millions	% of total Housing Credit			
As at March 31, 2017	6,505	10,284	63.0	4,258	5,322	36.0	1	262	1.0	26,632	
As at December 31, 2016	5,795	10,331	62.4	4,224	5,225	36.5	1	283	1.1	25,859	

Footnotes:

- (1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 258 million, which are intergrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2016: NIS 266 million).
- (2) The credit balance is after deduction of allowance for credit losses at an amount of NIS 173 million at March 31, 2017 (December 31, 2016: NIS 171 million).

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

The outstanding balance as of March 31, 2017 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 3,307 million, comprising 12.4% of the total housing loans portfolio (as of December 31, 2016, the balance amounted to NIS 3,076 million, comprising 11.9% of the total housing loans portfolio).

#### Composition of loans granted for housing purposes, divided by the ratio of repayments to earnings

	For the three months ended March 31,				For the year ended December 31,	
	2017		2016		2016	
	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted	In NIS millions	% of total credit granted
Ratio of payment to income (PTI) <sup>(1)</sup>						
Up to 40%	1,392	99.9	1,409	99.6	6,497	99.8
Over 40%	1	0.1	5	0.4	11	0.2
<b>Total</b>	<b>1,393</b>	<b>100.0</b>	<b>1,414</b>	<b>100.0</b>	<b>6,508</b>	<b>100.0</b>

Footnote:

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

On the background of regulatory instructions regarding restricting the refund ratio to 50% and increasing the allotment of capital with respect to loans of a refund ratio exceeding 40%, a significant decline has occurred in the rate of credit granted in 2015 at a refund ratio of over 40%.

## CREDIT RISK OF PRIVATE INDIVIDUALS (EXCLUDING HOUSING CREDIT RISK)

### BACKGROUND

**Credit products.** The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans. The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.

**Credit underwriting.** Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes in respect of consumer credit at the Bank are accompanied by wide use of the model products and are conducted in accordance with the Bank's credit policy, carefully modifying the product to the needs of the customer.

Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer, his repayment ability, as well as additional indications required in accordance with the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and in accordance with the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower.

## DEVELOPMENT IN BALANCES

### Portfolio of loans to private individuals (excluding housing loans)

	Balance Sheet Credit Risk				
	Financial assets portfolio <sup>(2)</sup>				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk(3)
Balance in NIS million					
March 31, 2017					
Level of income to the account <sup>(1)</sup>					
Excluding permanent income to the account	1,351	268	1,619	460	2,079
Less than NIS 10 thousand	5,375	1,112	6,487	3,274	9,761
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,395	1,209	4,604	2,623	7,227
Greater than NIS 20 thousand	2,829	2,163	4,992	3,683	8,675
<b>Total</b>	<b>12,950</b>	<b>4,753</b>	<b>17,702</b>	<b>10,040</b>	<b>27,742</b>
December 31, 2016					
Level of income to the account <sup>(1)</sup>					
Excluding permanent income to the account	1,590	254	1,843	795	2,638
Less than NIS 10 thousand	5,529	1,186	6,715	3,308	10,023
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,235	1,214	4,449	2,528	6,977
Greater than NIS 20 thousand	2,435	1,925	4,360	3,128	7,488
<b>Total</b>	<b>12,789</b>	<b>4,579</b>	<b>17,367</b>	<b>9,759</b>	<b>27,126</b>

Footnotes:

(1) All permanent income to the account, such as: net salary, rental income and fixed allowances.

(2) financial assets portfolio associated with the account, such as: monetary deposits (including current account balances), securities portfolio and other monetary assets.

(3) Including data of MDB.

### Balance sheet credit risk in respect of private individuals (excluding housing loans), by classes of interest

	March 31, 2017	December 31, 2016
	in NIS million	
Fixed interest credit	5,496	5,488
Variable interest credit	12,207	11,879
<b>Total</b>	<b>17,703</b>	<b>17,367</b>

### Development of problematic credit risk in respect of private individuals (excluding housing loans)

				Rate from total credit to the public	
	March 31, 2017	December 31, 2016	Change in	March 31, 2017	December 31, 2016
	in NIS million			%	%
Problematic credit risk	447	440	1.6	1.7	1.7
Of which: impaired credit risk	65	61	6.6	0.2	0.2
Debts in arrears of 90 days or more	72	82	(12.2)	0.3	0.3
Net accounting write-offs recognized during the period	58	146	(60.3)	0.2	0.6
Balance of allowance for credit losses	463	454	2.0	1.7	1.8

## DEVELOPMENT OF THE RISK

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. At the beginning of 2016, credit to households comprised nearly one half of the total credit portfolio of the banking industry in Israel. Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.

With respect to the Discount Group, it should be emphasized that since the beginning of the present decade and in comparison with the other large banking groups, this is a controlled growth, which is relatively low, both as regards to consumer credit and as regards to housing loans.

## RISK MITIGATING MEASURES

**Determining underwriting thresholds.** Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.

**Models and analytical tools.** The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time in accordance with market changes, state of the borrowers and additional factors.

**Effective measurement.** All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.

## THE FAIRNESS PRINCIPLE

In accordance with guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer. The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account. It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.

## MONITORING AND CONTROL

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit. Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.

## CREDIT RISK IN RELATION TO THE CONSTRUCTION AND REAL ESTATE SECTOR

The construction and real estate sectors are a central component in the Bank's credit portfolio. Most of the credit to these sectors is managed by the Real Estate and Infrastructure department in the Corporate Division, which is a high level of expertise and considerable experience in this field. The Bank's activities in this field are subject to a regulatory limit prescribing that the weight of local real estate activities shall not exceed 20% of the total credit; in addition, the Bank has set itself a more stringent internal limit that serves as a threshold alert. The credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is mostly conducted by the closed loan method, under minimum requirements, including minimal equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more. The Bank is conducting on a current basis the monitoring of exposure to these sectors. For a fuller explanation, see the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.

### Total credit and percentage of problematic credit in the construction and real estate sector

	March 31, 2017			December 31, 2016		
	Credit for public <sup>(1)(2)</sup>	Of which: the problematic credit <sup>(1)(2)</sup>	Rate of problematic credit	Credit for public <sup>(1)(2)</sup>	Of which: the problematic credit <sup>(1)(2)</sup>	Rate of problematic credit
	in NIS million		%	in NIS million		%
Income generating real estate	8,862	306	3.5	10,936	399	3.6
Construction – general building contracting	1,722	258	15.0	1,938	290	15.0
Residential projects financing	14,462	124	0.9	13,990	97	0.7
Acquisition of building land	4,652	66	1.4	3,560	83	2.3
Other	9,442	293	3.1	9,956	350	3.5
<b>Total<sup>(3)</sup></b>	<b>39,139</b>	<b>1,048</b>	<b>2.7</b>	<b>40,380</b>	<b>1,219</b>	<b>3.0</b>

Footnotes:

(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.

(2) Including data of MDB.

(3) The data in this table are more expansive than the data reported according to economic sectors, in conformity with the Bank's internal reporting, and include additional activities correlating largely with the activities in the construction and real estate sector. The data in the table include activity in Israel only.

As revealed by the table, most of the growth is in the financing of residential projects and acquisition of building land field, which is in conformity with the Bank's credit policy.

For details regarding the purchase of a policy to insure against credit risk related to Sale Act guarantees and performance guarantees, see "Large Businesses Segment (Domestic Operations)" above under "Activity of the Group According to Principal Segments of Operation – Principal Quantitative Data and Main Developments".

## CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

**Definition of leveraged finance.** Leveraged finance is defined as credit financing capital transactions of corporations and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations.

According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

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

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

Following are data regarding credit risk pertaining to leveraged finance as of March 31, 2017. Disclosure is focused on exposure leverage transactions, each of which exceeds NIS 75 million, similar to December 31, 2016.

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

Sector	March 31, 2017				December 31, 2016			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
	In NIS millions							
Industry	1,055	88	1,143	-	345	52	397	-
Construction and real estate	596	249	845	-	605	245	850	-
Commerce	61	-	61	-	67	-	67	-
<b>Total</b>	<b>1,712</b>	<b>337</b>	<b>2,049</b>	<b>-</b>	<b>1,017</b>	<b>297</b>	<b>1,314</b>	<b>-</b>

Exposure to leveraged finance as of March 31, 2017 amounted to NIS 1,712 million, compared to NIS 1,017 million at the end of 2016, an increase of 68.3%. The aforesaid increase was due, primarily, to changes in the financial ratios, resulting in the credit falls within the definition of leveraged finance.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts. The off-balance sheet exposure in respect of leverage finance transactions as of March 31, 2017, amounted to NIS 337 million (December 31, 2016 – NIS 297 million).

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

## MARKET RISKS

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

For general details regarding market risks, see the 2016 Annual Report (pp. 85-87).

## Exposure to changes in interest rates – Consolidated

As at March 31, 2017

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
in NIS millions					
<b>Non linked Israeli currency</b>					
<b>Financial assets and amounts receivable in respect of derivative instruments</b>					
Financial assets <sup>(1)</sup>	103,330	10,924	7,944	9,610	4,072
Derivative financial instruments (except for options)	11,918	22,835	10,212	12,000	4,861
Options (in terms of base assets)	375	617	875	294	167
<b>Total fair value</b>	<b>115,623</b>	<b>34,376</b>	<b>19,031</b>	<b>21,904</b>	<b>9,100</b>
<b>Financial liabilities and amounts payable in respect of derivative instruments</b>					
Financial liabilities <sup>(1)</sup>	89,582	10,156	12,713	9,293	2,727
Derivative financial instruments (except for options)	16,809	25,833	15,132	10,336	4,822
Options (in terms of base assets)	314	672	667	18	4
Off-balance sheet financial instruments	-	-	-	-	-
<b>Total fair value</b>	<b>106,705</b>	<b>36,661</b>	<b>28,512</b>	<b>19,647</b>	<b>7,553</b>
<b>Financial instruments, net</b>					
Exposure to changes in interest rates in the segment	8,918	(2,285)	(9,481)	2,257	1,547
<b>Cumulative exposure in the segment</b>	<b>8,918</b>	<b>6,633</b>	<b>(2,848)</b>	<b>(591)</b>	<b>956</b>
<b>CPI linked Israeli currency</b>					
<b>Financial assets and amounts receivable in respect of derivative instruments</b>					
Financial assets <sup>(1)</sup>	631	675	2,694	7,418	4,740
Derivative financial instruments (except for options)	99	339	704	1,223	384
Options (in terms of base assets)	-	40	28	18	4
<b>Total fair value</b>	<b>730</b>	<b>1,054</b>	<b>3,426</b>	<b>8,659</b>	<b>5,128</b>
<b>Financial liabilities and amounts payable in respect of derivative instruments</b>					
Financial liabilities <sup>(1)</sup>	210	484	1,776	2,849	4,971
Derivative financial instruments (except for options)	208	741	2,146	3,382	828
Options (in terms of base assets)	-	31	91	230	142
Off-balance sheet financial instruments	-	-	-	-	-
<b>Total fair value</b>	<b>418</b>	<b>1,256</b>	<b>4,013</b>	<b>6,461</b>	<b>5,941</b>
<b>Financial instruments, net</b>					
Exposure to changes in interest rates in the segment	312	(202)	(587)	2,198	(813)
<b>Cumulative exposure in the segment</b>	<b>312</b>	<b>110</b>	<b>(477)</b>	<b>1,721</b>	<b>908</b>

Notes:

- (1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.  
(2) Weighted average by fair value of average effective duration.  
(3) Including shares listed under "No fixed maturity".  
(4) Including Israeli currency linked to foreign currency.



As at March 31, 2017														As at March 31, 2016				As at December 31, 2016			
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years									
in NIS millions																					
4,179	895	52	374	141,380	2.85%	0.66	127,282	2.69%	0.60	137,120	2.84%	0.68									
5,541	37	-	-	67,404		1.47	75,256		1.24	69,422		1.27									
57	1	-	-	2,386		0.02	1,941		0.01	1,573		0.01									
9,777	933	52	374	211,170		(2)0.91	204,479		(2)0.83	208,115		(2)0.87									
432	113	-	-	125,016	0.27%	0.35	111,407	0.25%	0.29	121,147	0.27%	0.32									
7,208	87	-	-	80,227		1.34	87,758		1.28	81,756		1.31									
4	-	-	-	1,679		0.01	1,593		0.01	1,084		0.01									
-	-	-	-	-		-	-		-	-		-									
7,644	200	-	-	206,922		(2)0.73	200,758		(2)0.72	203,987		(2)0.72									
2,133	733	52	374	4,248			3,721			4,128											
3,089	3,822	3,874	4,248																		
3,255	870	75	9	20,367	1.90%	3.44	20,211	1.66%	3.62	20,398	1.94%	3.47									
1,897	20	-	-	4,666		4.14	4,803		3.89	4,699		4.29									
4	-	-	-	94		0.02	189		0.01	104		0.01									
5,156	890	75	9	25,127		(2)3.56	25,203		(2)3.64	25,201		(2)3.61									
1,792	319	-	-	12,401	0.57%	3.37	14,319	0.84%	3.44	13,047	0.88%	3.36									
938	41	-	-	8,284		3.28	6,427		2.62	7,844		2.15									
41	-	-	-	535		0.07	639		0.01	498		0.01									
-	-	-	-	-		-	-		-	-		-									
2,771	360	-	-	21,220		(2)3.25	21,385		(2)3.09	21,389		(2)2.84									
2,385	530	75	9	3,907			3,818			3,812											
3,293	3,823	3,898	3,907																		

## General notes:

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

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

As at March 31, 2017

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
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in NIS millions

Foreign currency<sup>(4)</sup>

## Financial assets and amounts receivable in respect of derivative instruments

Financial assets <sup>(1)</sup>	24,838	5,961	3,497	4,938	3,134
Derivative financial instruments (except for options)	24,953	31,699	21,276	4,327	2,799
Options (in terms of base assets)	809	1,686	1,128	10	-

<b>Total fair value</b>	<b>50,600</b>	<b>39,346</b>	<b>25,901</b>	<b>9,275</b>	<b>5,933</b>
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## Financial liabilities and amounts payable in respect of derivative instruments

Financial liabilities <sup>(1)</sup>	39,657	4,863	11,717	4,319	343
Derivative financial instruments (except for options)	15,172	29,746	14,633	4,629	2,979
Options (in terms of base assets)	868	1,632	1,262	66	19
Off-balance sheet financial instruments	-	-	-	-	-

<b>Total fair value</b>	<b>55,697</b>	<b>36,241</b>	<b>27,612</b>	<b>9,014</b>	<b>3,341</b>
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## Financial instruments, net

Exposure to changes in interest rates in the segment	(5,097)	3,105	(1,711)	261	2,592
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<b>Cumulative exposure in the segment</b>	<b>(5,097)</b>	<b>(1,992)</b>	<b>(3,703)</b>	<b>(3,442)</b>	<b>(850)</b>
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## Total exposure to changes in interest rates

## Financial assets and amounts receivable in respect of derivative instruments

Financial assets <sup>(1), (3)</sup>	129,024	17,560	14,135	21,966	11,946
Derivative financial instruments (except for options)	36,970	54,873	32,192	17,550	8,044
Options (in terms of base assets)	1,184	2,343	2,031	322	171

<b>Total fair value</b>	<b>167,178</b>	<b>74,776</b>	<b>48,358</b>	<b>39,838</b>	<b>20,161</b>
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## Financial liabilities and amounts payable in respect of derivative instruments

Financial liabilities <sup>(1)</sup>	129,674	15,503	26,206	16,461	8,041
Derivative financial instruments (except for options)	32,189	56,320	31,911	18,347	8,629
Options (in terms of base assets)	1,182	2,335	2,020	314	165
Off-balance sheet financial instruments	-	-	68	-	-

<b>Total fair value</b>	<b>163,045</b>	<b>74,158</b>	<b>60,205</b>	<b>35,122</b>	<b>16,835</b>
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## Financial instruments, net

Exposure to changes in interest rates in the segment	4,133	618	(11,847)	4,716	3,326
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<b>Cumulative exposure in the segment</b>	<b>4,133</b>	<b>4,751</b>	<b>(7,096)</b>	<b>(2,380)</b>	<b>946</b>
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Notes:

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

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

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

(4) Including Israeli currency linked to foreign currency.

As at March 31, 2017							As at March 31, 2016			As at December 31, 2016		
Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions												
5,058	864	-	357	48,647	3.05%	1.60	51,353	2.30%	1.54	52,818	3.12%	1.72
7,427	85	61	-	92,627		1.11	105,742		0.85	94,654		0.97
-	-	-	-	3,633		0.01	6,209		0.01	3,307		0.10
<b>12,485</b>	<b>949</b>	<b>61</b>	<b>357</b>	<b>144,907</b>		<b>(2)1.25</b>	<b>163,304</b>		<b>(2)1.04</b>	<b>150,779</b>		<b>(2)1.21</b>
15	12	-	-	60,926	1.08%	0.33	61,795	0.60%	0.41	64,852	1.05%	0.35
9,510	60	95	-	76,824		1.50	92,402		1.16	79,480		1.40
12	-	-	-	3,859		0.01	6,093		0.01	3,368		0.10
-	-	-	-	-		-	-		-	-		-
<b>9,537</b>	<b>72</b>	<b>95</b>	<b>-</b>	<b>141,609</b>		<b>(2)0.95</b>	<b>160,290</b>		<b>(2)0.83</b>	<b>147,700</b>		<b>(2)0.91</b>
2,948	877	(34)	357	3,298			3,014			3,079		
<b>2,098</b>	<b>2,975</b>	<b>2,941</b>	<b>3,298</b>									
12,492	2,629	127	1,690	211,569	2.80%	1.14	199,775	2.48%	1.15	211,610	2.82%	1.21
14,865	142	61	-	164,697		1.35	185,801		1.09	168,775		1.19
61	1	-	-	6,113		0.01	8,339		0.01	4,984		0.07
<b>27,418</b>	<b>2,772</b>	<b>188</b>	<b>1,690</b>	<b>382,379</b>		<b>(2)1.21</b>	<b>393,915</b>		<b>(2)1.10</b>	<b>385,369</b>		<b>(2)1.18</b>
2,239	444	-	-	198,568	0.54%	0.53	187,569	0.41%	0.57	199,344	0.56%	0.53
17,656	188	95	-	165,335		1.51	186,587		1.27	169,080		1.39
57	-	-	-	6,073		0.01	8,325		0.01	4,950		0.07
-	-	-	18	86		0.08	72		0.08	83		0.08
<b>19,952</b>	<b>632</b>	<b>95</b>	<b>18</b>	<b>370,062</b>		<b>(2)0.96</b>	<b>382,553</b>		<b>(2)0.90</b>	<b>373,457</b>		<b>(2)0.91</b>
7,466	2,140	93	1,672	12,317			11,362			11,912		
<b>8,412</b>	<b>10,552</b>	<b>10,645</b>	<b>12,317</b>									

## General notes:

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

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

## SHARE PRICE RISK

### SHARES POSITION IN THE BANKING BOOK

#### Investments in shares

	March 31	December 31	
	2017	2016	2016
	In NIS millions		
<b>Investments in shares of affiliated companies<sup>(1)</sup>:</b>			
Non marketable shares	147	141	157
<b>Shares in the available-for-sale portfolio:</b>			
Marketable shares	76	76	110
Non marketable shares	865	798	853
Total shares in the available for sale portfolio	941	874	963
<b>Total investment in shares</b>	<b>1,088</b>	<b>1,015</b>	<b>1,120</b>

Footnote:

(1) For additional information see Note 15 to the Financial Statements as of December 31, 2016.

#### Capital requirement regarding share position

	March 31	December 31
	2017	2016
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds <sup>(2)</sup>	168	168
In respect of investments in other shares <sup>(3)</sup>	60	48
<b>Total capital requirement regarding share position<sup>(1)</sup></b>	<b>228</b>	<b>216</b>

Footnotes:

(1) The capital requirement was computed according to 12.7% and does not include capital requirement in respect of investment in shares in the trading portfolio.

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

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

For additional quantitative and qualitative details about share price risk, see the 2016 annual report (p. 92) and in the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

## LIQUIDITY AND FINANCING RISKS

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

No deviation from the said restrictions was recorded in the first quarter of 2017.

For further details regarding the management of the Liquidity and financing risks, see the 2016 Annual Report (pp. 93-96).

### LIQUIDITY COVERAGE RATIO

As of the first quarter of 2017, the liquidity coverage ratio of the Discount Group on the basis of an observation average stood at 150.8%, higher than the minimum requirements according to the instructions.

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

## LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

### General

A growth of 2% was recorded during the first quarter of 2017 in the money supply M1 (cash held by the public and shekel current account deposits), with a growth of a similar rate in current account deposits and of 3% in the cash balances. The growth in the money supply M2 (M1 together with non-linked deposits of up to one year) amounted to 1.7%. It is noted, that in the corresponding period in 2016, the M1 and M2 money supply grew by 3% and 1.5%, respectively, with a 3% growth in current account deposits.

A growth of NIS 6.8 billion in the monetary base was recorded in the first quarter of 2017, compared to NIS 0.7 billion in the corresponding period last year. The rise in the monetary base derives from the supply of liquidity by the Bank of Israel to the tune of NIS 19 billion, with absorption of liquidity by the Government on the other hand. The supply of liquidity by the Bank of Israel was conducted through foreign currency exchange and open market operations (excess redemption of short-term loans (MAKAM) over new issues) and by reducing the tenders for shekel deposits.

### Sources for the change in the monetary base

	2017	2016	change
	In NIS billion		in %
Operations on the Capital Market	2.0	4.0	(50.0)
The Shekel deposits tender	5.0	4.0	25.0
Foreign currency conversion	11.1	3.9	184.6
Government activity	(12.9)	(12.5)	3.2

### The Bank

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

During the first quarter of 2017, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus. The following trends were observed during the period:

- An increase of NIS 1.5 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 1.6%. An increase in retail deposits of NIS 640 million, an increase in corporate deposits of NIS 1.5 billion. on the other hand, redemption of debt notes issued by Discount Manpikim in the amount of NIS 610 million, which had been deposited with the Bank;
- Alongside the growth in the balance of deposits during the first quarter, current account balances remained stable with no material change as compared to the end of 2016;
- Eliminating the impact of the exchange rate, foreign currency deposits increased by an amount of US\$70 million. An increase of US\$50 million in retail deposits and approx. US\$20 million in corporate deposits. Foreign currency deposits including the effect of the exchange rate declined by NIS 1.5 billion.

### Deposits from the public

	March 31, 2017	March 31, 2016	December 31, 2016	Change compared to March 31, 2016		Change compared to December 31, 2016	
				In NIS millions	in %	In NIS millions	in %
Non-linked shekels	90,008	81,121	87,917	8,887	11	2,091	2.4
CPI-linked shekels	5,221	6,509	5,761	(1,288)	(19.8)	(540)	(9.4)
Foreign currency and foreign currency linked shekels	28,206	27,802	29,675	404	1.5	(1,469)	(4.9)
<b>Total</b>	<b>123,435</b>	<b>115,432</b>	<b>123,353</b>	<b>8,003</b>	<b>6.9</b>	<b>82</b>	<b>0.1</b>
<b>Foreign currency and foreign currency linked shekels - In US\$ millions</b>	<b>7,766</b>	<b>7,382</b>	<b>7,718</b>	<b>384</b>	<b>5.2</b>	<b>48</b>	<b>0.6</b>

**Deposits from Banks**

	March 31, 2017	March 31, 2016	December 31, 2016	Change compared March 31, 2016		Change compared December 31, 2016	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	1,070	917	945	153	16.6	125	13.2
CPI-linked shekels	333	55	293	278	506.3	40	13.8
Foreign currency and foreign currency linked shekels	317	414	468	(97)	(23.5)	(151)	(32.3)
<b>Total</b>	<b>1,720</b>	<b>1,386</b>	<b>1,706</b>	<b>334</b>	<b>24.1</b>	<b>14</b>	<b>0.8</b>

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

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

**OPERATIONAL RISKS**

For details regarding operational risks and the manner of management thereof, including in the matter of business continuity, see the 2016 Annual Report (p. 119) and the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

**COMPLIANCE RISKS****PROHIBITION OF MONEY LAUNDERING AND TERROR FINANCING**

**Discount Group's activities with banks acting in the Palestinian Authority.** 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.

In December of 2016, the Bank approached the Bank of Israel and the Director General of the Ministry of Finance, repeating its request, as stated, and informing of its decision to discontinue the supply of cash services to the Palestinian banks. During the course of January 2017, the Bank informed the Palestinian Banks of its decision to discontinue the engagement with them in everything related to the supply of cash services. In March 2017 the Bank became aware of discussions being held with respect to the formation of tools hedging against the risk involved in providing services to the Palestinian banks, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. No outline in the matter has, as yet, been presented to the Bank.

The Bank is studying the outline proposed by the Bank of Israel for the rendering of cash services to the Palestinian banks with the involvement of the Bank of Israel, by means of the cash center of the Bank. In view of the discussions held with the Bank of Israel in the matter, an extension has been granted for the continuation of the cash activity with the Palestinian Banks.

For further details regarding compliance risks, see the 2016 Annual Report (pp. 100-101).

## OTHER RISKS

For additional details regarding other risks, see 2016 Annual Report (including: Cross-border risks – pp. 97-98; Information technology risks – p. 98; Strategic risk – p. 98; Reputation risk – p. 99; Environmental risks – p. 99; Legal risks – p. 99; Conduct risks – p. 101; for details regarding Risk Factors Table – see pp. 101-103).

## CHAPTER "D" – ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROLS AND PROCEDURES

### CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2016, pp. 134-155) and according to instructions and guidelines of the Supervisor of Banks.

The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.

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

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

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

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2016 Annual Report (pp. 104-110).

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

**The credit risk.** The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in the first three months of 2017, to a profit of NIS 1 million, compared to a loss of NIS 2 million in 2016.

#### Adjustments made to assets and liabilities in respect of derivative instruments

	March 31, 2017	December 31, 2016
	in NIS millions	
Assets in respect of derivative instruments	3,058	3,304
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(11)	(10)
Liabilities in respect of derivative instruments	3,667	3,598
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(6)	(4)

For additional details regarding the measurement of financial instruments according to their fair value, see the 2016 Annual Report (pp. 106-109).

## EMPLOYEE RIGHTS

**Updated actuarial opinion.** The Bank has ordered an updated actuarial assessment as of March 31, 2017.

For details regarding the computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority's "deep market" guideline, see the actuarial assessment appended to the annual report for 2016.

**Presenting the actuary's opinion for perusal.** The opinion of the Actuary<sup>1</sup> is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the 2017 First Quarter Report (this Report).

## CONTROLS AND PROCEDURES

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### DISCLOSURE CONTROLS AND PROCEDURES

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

### CHANGES IN INTERNAL CONTROL

During the first quarter of 2017, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting.

Dr. Yossi Bachar  
Chairman of the Board of Directors

Lilach Asher-Topilsky  
President & Chief Executive Officer

May 15, 2017

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



# INTERNAL CONTROL OVER FINANCIAL REPORTING

71	President & CEO's certifications
72	Chief Accountant's certification



## CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of March 31, 2017 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
  - (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
  - (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
  - (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

May 15, 2017

Ms. Lilach Asher-Topilsky  
President & Chief Executive Officer

## CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of March 31, 2017 (hereinafter: "the Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report.
3. Based on my knowledge, the interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in equity and cash flows of the Bank as of, and for, the periods presented in this report.
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and to the internal control of the Bank over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
  - (b) We established such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
  - (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation;
  - (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the Audit Committee of the Board of Directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

May 15, 2017

Joseph Beressi  
Senior Executive Vice President  
Chief Accountant

# CONDENSED FINANCIAL STATEMENTS

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## REVIEW REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD.

### INTRODUCTION

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at March 31, 2017 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for this interim period in accordance with Israeli GAAP regarding financial reporting for this interim period and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

### SCOPE OF REVIEW

We have conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the guidelines and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

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

### EMPHASIS OF A MATTER

Without qualifying our above conclusion, we call attention to the Note 10 B items 4.1 and 5 concerning motion to approve certain lawsuits as class action suits and with regard to other claims against the Bank and investee companies.

Somekh Chaikin  
Certified Public Accountants (Isr.)  
May 15, 2017

Ziv Haft  
Certified Public Accountants (Isr.)

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		Unaudited	Audited
		For the three months ended March 31,	For the year ended December 31,
	Notes	2017	2016
			2016
Interest income		1,440	<sup>(1)</sup> 1,218
Interest expenses		273	169
Interest income, net	2	1,167	1,049
Credit loss expenses	6	145	46
<b>Net interest income after credit loss expenses</b>		<b>1,022</b>	<b>1,003</b>
<b>Non-interest Income</b>			
Non-interest financing income	3	225	96
Commissions		666	624
Other income		22	62
<b>Total non-interest income</b>		<b>913</b>	<b>782</b>
<b>Operating and other Expenses</b>			
Salaries and related expenses		859	859
Maintenance and depreciation of buildings and equipment		264	273
Other expenses		309	285
<b>Total operating and other expenses</b>		<b>1,432</b>	<b>1,417</b>
Profit before taxes		503	368
Provision for taxes on profit		182	<sup>(1)</sup> 175
Profit after taxes		321	193
Bank's share in profit (loss) of affiliated companies, net of tax effect		(4)	(1)
<b>Net profit:</b>			
Before attribution to non-controlling rights holders		317	192
Attributed to the non-controlling rights holders		(14)	(13)
<b>Net Profit Attributed to the Bank's Shareholders</b>		<b>303</b>	<b>179</b>
<b>Earnings per share of NIS 0.1 par value (in NIS)</b>			
<b>Total earnings per share attributed to the Bank's shareholders</b>		<b><sup>(2)</sup>0.27</b>	<b>0.17</b>
			<b><sup>(2)</sup>0.84</b>

Footnotes:

(1) Reclassified, see Note 1 G (1).

(2) The diluted earnings are identical to the basic earnings.

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

Dr. Yossi Bachar  
Chairman of the Board of DirectorsMs. Lilach Asher-Topilsky  
President & Chief Executive OfficerJoseph Beressi  
Senior Executive Vice President,  
Chief Accountant

May 15, 2017



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited		Audited
	For the three months ended		For the year ended
	March 31,		December 31,
	2017	2016	2016
	in NIS millions		
Net profit before attribution to non-controlling rights holders	317	192	987
Net profit attributed to non-controlling rights holders	(14)	(13)	(82)
<b>Net profit attributed to the Bank's shareholders</b>	<b>303</b>	<b>179</b>	<b>905</b>
<b>Other comprehensive income (loss), before taxes:</b>			
Adjustments, net, for presentation of available-for-sale securities at fair value	(26)	109	(126)
Financial statements translation adjustments, net	(190)	(116)	(44)
Adjustments of liabilities in respect of employee benefits <sup>(2)</sup>	51	(227)	(239)
Net profit (loss) in respect of cash flows hedge	(1)	2	2
<b>Other comprehensive loss, before taxes</b>	<b>(166)</b>	<b>(232)</b>	<b>(407)</b>
Effect of attributed taxes	(8)	33	111
Other comprehensive loss, before attribution to non-controlling rights holders, after taxes	(174)	(199)	(296)
Other comprehensive loss attributed to non-controlling rights holders	<sup>(3)</sup> —	(2)	(4)
<b>Other comprehensive loss attributed to the Bank's shareholders, after taxes</b>	<b>(174)</b>	<b>(197)</b>	<b>(292)</b>
Comprehensive income (loss), before attribution to non-controlling interests holders	143	(7)	691
Comprehensive income, attributed to non-controlling interests holders	(14)	(11)	(78)
<b>Comprehensive income (loss), attributed to the Bank's shareholders<sup>(1)</sup></b>	<b>129</b>	<b>(18)</b>	<b>613</b>

Footnotes:

(1) See Note 4.

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

(3) An amount lower than NIS 1 million.

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

## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited		Audited
	Note	March 31, 2017	March 31, 2016	December 31, 2016
in NIS millions				
<b>Assets</b>				
Cash and deposits with banks		29,179	29,210	29,311
Securities (of which: 4,922, 4,449, 4,859 respectively, pledged to lenders)	5	36,187	38,064	38,818
Securities borrowed or purchased under resale agreements		369	183	440
Credit to the public	6, 14	145,548	131,272	142,904
Allowance for credit losses	6, 14	(2,089)	(2,069)	(2,144)
Credit to the public, net		143,459	129,203	140,760
Credit to Governments		795	524	737
Investments in affiliated companies		147	141	157
Buildings and equipment		2,271	2,180	2,295
Intangible assets and goodwill		160	142	160
Assets in respect of derivative instruments	11	3,034	3,761	3,283
Other assets		3,448	3,776	3,589
Noncurrent assets held for sale		47	16	27
<b>Total assets</b>		<b>219,096</b>	<b>207,200</b>	<b>219,577</b>

For footnotes see next page.

## CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited		Audited
	Note	March 31, 2017	March 31, 2016	December 31, 2016
in NIS millions				
<b>Liabilities and Equity</b>				
Deposits from the public	7	171,642	<sup>(2)</sup> 161,633	172,318
Deposits from banks		5,184	3,842	5,342
Deposits from the Government		302	<sup>(2)</sup> 325	303
Securities loaned or sold under repurchase agreements		3,340	3,698	3,543
Subordinated capital notes		8,648	8,739	8,498
Liabilities in respect of derivative instruments	11	3,639	4,535	3,570
Other liabilities <sup>(1)</sup>		11,156	10,754	11,067
Liabilities held for sale		-	47	-
Total liabilities		203,911	193,573	204,641
Equity attributed to the Bank's shareholders		14,754	13,270	14,512
Non-controlling rights in consolidated companies		431	357	424
Total equity		15,185	13,627	14,936
<b>Total Liabilities and Equity</b>		<b>219,096</b>	<b>207,200</b>	<b>219,577</b>

Footnotes:

(1) Of which 187 NIS million, NIS 181 million and NIS 195 million, as of March 31, 2017, March 31, 2016 and December 31, 2016, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

(2) Reclassified - see Note 1 G (2).

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

## CONDENSED STATEMENT OF CHANGES IN EQUITY

### A. For the three months ended March 31, 2017 and 2016 (unaudited)

Balance at December 31, 2016 (audited)
Net Profit for the period
Dividend to non-controlling interests holders in consolidated companies
Exercise of options to Shares <sup>(1)</sup>
Other comprehensive loss, net after tax effect

### Balance at March 31, 2017

Balance at December 31, 2015 (audited)
Net Profit for the period
Other comprehensive loss, net after tax effect

### Balance at March 31, 2016

### B. For the year of 2016 (audited)

Balance at December 31, 2015
Net Profit for the year
Transactions with controlling shareholders
Issue of Shares <sup>(1)</sup>
Receipts on account of option warrants <sup>(1)</sup>
Exercise of options to Shares <sup>(1)</sup>
Other comprehensive loss net after tax effect

### Balance at December 31, 2016

Footnotes:

(1) See Note 20.

(2) An amount lower than NIS 1 million.

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

Capital reserves

Share capital	Share premium	Other	Total paid up share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling interests holders in consolidated subsidiaries	Total equity
in NIS millions								
673	3,958	291	4,922	(397)	9,987	14,512	424	14,936
-	-	-	-	-	303	303	14	317
-	-	-	-	-	-	-	(7)	(7)
2	171	(60)	113	-	-	113	-	113
-	-	-	-	(174)	-	(174)	(2)	(174)
<b>675</b>	<b>4,129</b>	<b>231</b>	<b>5,035</b>	<b>(571)</b>	<b>10,290</b>	<b>14,754</b>	<b>431</b>	<b>15,185</b>
665	3,434	212	4,311	(105)	9,082	13,288	346	13,634
-	-	-	-	-	179	179	13	192
-	-	-	-	(197)	-	(197)	(2)	(199)
<b>665</b>	<b>3,434</b>	<b>212</b>	<b>4,311</b>	<b>(302)</b>	<b>9,261</b>	<b>13,270</b>	<b>357</b>	<b>13,627</b>
665	3,434	212	4,311	(105)	9,082	13,288	346	13,634
-	-	-	-	-	905	905	82	987
-	-	3	3	-	-	3	-	3
7	465	-	472	-	-	472	-	472
-	-	97	97	-	-	97	-	97
1	59	(21)	39	-	-	39	-	39
-	-	-	-	(292)	-	(292)	(4)	(296)
<b>673</b>	<b>3,958</b>	<b>291</b>	<b>4,922</b>	<b>(397)</b>	<b>9,987</b>	<b>14,512</b>	<b>424</b>	<b>14,936</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	Audited
	For the three months ended March 31	For the year ended December 31
	2017	2016
	in NIS millions	
<b>Annex A - Cash Flows from Operating Activities</b>		
Net profit before attribution to non-controlling rights holders in consolidated companies	317	192
Adjustments necessary to present cash flows from current operations:		
Bank's share in undistributed (profits) loss of affiliated companies.	6	1
Depreciation of buildings and equipment (including impairment in value)	99	109
Provision for impairment of securities	2	3
Credit loss expenses	271	171
Gain on sale of credit portfolio, net	(1)	-
Gain on sale of available-for-sale and held to maturity securities, net	(158)	(55)
Gain on the sale of rights in Visa Europe	-	-
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	17	(10)
Gain from realization at an investment in investee companies	(5)	-
Gain on realization of buildings and equipment, net	(20)	(60)
Net deferred taxes	(5)	12
Severance pay – increase (decrease) in excess of provision over the deposits	(11)	206
Net change in current assets:		-
Deposits with banks	176	236
Credit to the public, net	(2,346)	<sup>(3)</sup> (1,263)
Credit to the Government	(58)	<sup>(3)</sup> (4)
Securities borrowed or purchased under resale agreements	71	96
Assets in respect of derivative instruments	249	(553)
Trading securities	305	(543)
Other assets	136	(70)
Effect of changes in exchange rate on cash and cash equivalent balances	(129)	(72)
Accrual differences included in investment and financing activities	1,089	719
Net change in current liabilities:		-
Deposits from banks	(158)	(65)
Deposits from the public	(1,165)	<sup>(2)</sup> 3,539
Deposits from the Government	-	<sup>(2)</sup> 19
Securities borrowed or purchased under resale agreements	(203)	(135)
Liabilities in respect of derivative instruments	69	1,060
Other liabilities	150	(674)
Adjustments in respect of exchange rate differences on current assets and liabilities	(99)	<sup>(1)</sup> (68)
<b>Net Cash Flows from (to) Operating Activities</b>	<b>(1,401)</b>	<b>2,791</b>
		<b>5,424</b>

## Footnotes:

(1) Reclassified – The reclassification of amounts between the "Effect of changes in exchange rate on cash and cash equivalent balances" item to the "Adjustments in respect of exchange rate differences on current assets and liabilities" item, following a re-examination.

(2) Reclassified - see Note 1 G (2).

(3) The classification to credit to governments of certain of the amounts in respect of the sale or purchase of credit, presented in the past as credit to the public.

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Unaudited		Audited
	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	in NIS millions		
<b>Cash Flows from Investing Activities</b>			
Acquisition of held-to-maturity bonds	-	(188)	(184)
Proceeds from redemption of held-to-maturity bonds	146	147	794
Acquisition of available-for-sale securities	(2,578)	(3,561)	(14,608)
Proceeds from sale of available-for-sale securities	3,396	3,307	6,557
Proceeds from sale of rights in Visa Europe purchased credit portfolios	-	-	286
	(495)	(282)	(1,194)
Gain on sale of credit portfolio	45	160	847
Proceeds from redemption of available-for-sale securities	654	501	5,071
Business combinations - see Annex A	-	-	9
Proceeds of the sale of investments in investee companies and dividend	9	-	7
The sale of operations of an investee company	-	<sup>(1)</sup> (1,225)	<sup>(1)</sup> (1,272)
Acquisition of buildings and equipment	(99)	(106)	(533)
Proceeds from sale of buildings and equipment	24	75	113
<b>Net Cash Flows from (to) Investing Activities</b>	<b>1,102</b>	<b>(1,172)</b>	<b>(4,107)</b>
<b>Cash Flows from Financing Activities</b>			
Issuance of subordinated debt notes	784	253	282
Redemption of subordinated debt notes	(589)	(978)	(1,355)
Issue of Shares	-	-	472
Receipts on account of option warrants	-	-	97
Receipts from conversion of options to shares	113	-	39
Dividend to non-controlling rights holders	(7)	-	(3)
<b>Net cash flows from (to) Financing Activities</b>	<b>301</b>	<b>(725)</b>	<b>(468)</b>
Increase in cash	2	894	849
Cash balance at beginning of period	28,819	27,886	27,886
Effect of changes in exchange rate on cash and cash equivalent balances	41	<sup>(2)</sup> 26	84
<b>Cash balance at end of period</b>	<b>28,862</b>	<b>28,806</b>	<b>28,819</b>
<b>Interest and taxes paid and/or received</b>			
Interest received	1,672	1,434	5,646
Interest paid	(305)	(364)	(1,231)
Dividends received	5	2	19
Taxes on income paid	(124)	(85)	(776)
Taxes on income received	39	21	302

Footnote:

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

(2) Reclassified – The reclassification of amounts between the "Effect of changes in exchange rate on cash and cash equivalent balances" item to the "Adjustments in respect of exchange rate differences on current assets and liabilities" item, following a re-examination.

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

APPENDIX A – BUSINESS COMBINATIONS<sup>(1)</sup>

	Unaudited		Audited
	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	in NIS millions		
Net assets	-	-	(22)
Goodwill	-	-	(18)
Disregarding non-controlling rights	-	-	49
<b>Business combinations</b>	<b>-</b>	<b>-</b>	<b>9</b>

Footnote:

(1) The merger of Clal Finance Underwriting with and into Discount Capital Underwriting.

## APPENDIX B – NON-CASH ASSET AND LIABILITY ACTIVITY DURING THE REPORTED PERIOD

	Unaudited		Audited
	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	in NIS millions		
Income from sale of rights in Visa Europe	-	-	74
Purchase of fixed assets	5	12	45
Lending of securities	174	776	2,315

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



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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## 1. ACCOUNTING POLICIES

- A. General.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of March 31, 2017, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group") as well as the rights of the Group in affiliated companies. The interim financial statements are prepared in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with directives and guidelines of the Supervisor of Banks with respect to the "quarterly report of a banking corporation", and they do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2016 and the accompanying notes.

The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2016 except as detailed in items D and E hereunder.

The interim financial statements were approved for publication by the Bank's Board of Directors on May 15, 2017.

- B. Principles of financial reporting.** In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

Where the International Financial Reporting Standards (IFRS) allow several alternatives, or where they do not include a specific reference to a particular situation, these instructions state specific implementation guidelines, based mostly on accounting principles accepted by U.S. banks.

- C. Use of assessments and discretion.** In preparing the interim financial statements in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, the Management of the Bank and of the investee companies are required to use discretion and apply assessments, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such assessments. Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

- D. Change in the distribution of derivatives between ALM derivatives and other derivatives.** ALM derivatives are defined in the public reporting directives as derivatives comprising a part of the Bank's asset and liability management layout and which are not intended for hedge relations. In accordance with the definitions of the financial management segment, trading activity would include transactions in derivative instruments that are not intended for hedge purposes and are not part of the Bank's asset and liability management, while the asset and liability management activity would include derivative instruments that are part of the asset and liability management. Most of the derivatives had in the past been presented in the financial statements as ALM derivatives. Within the framework of the preparations for providing, as from the year 2017, disclosure regarding the financial management segment, the Bank changed the manner of presentation in a way that would be more compatible with the distribution between the trading activity and the asset and liability management activity, and to the manner in which the trading portfolio is being defined for capital allocation purposes.

Whereas it is not possible to apply the said change to prior periods, the principal balance sheet and profit and loss data as of March 31, 2017, are presented below in accordance with the new presentation format, as stated in Note 3 and Note 11 below, compared to data as of March 31, 2017, had the Bank continued to present the data in accordance with the previous format of presentation.

### Par value of derivative instruments

Unaudited						
March 31, 2017						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
ALM derivatives - according to the new presentation format	7,307	11,691	19,614	-	-	38,612
ALM derivatives - according to the previous presentation format	11,190	82,325	85,644	-	-	179,159
Other derivatives - according to the new presentation format	3,883	81,050	68,019	10,254	73	163,279
Other derivatives - according to the previous presentation format	-	10,415	1,990	10,254	73	22,732

## 1. ACCOUNTING POLICIES (CONTINUED)

Certain income statement For the three months ended March 31 2017		Unaudited
		in NIS millions
Net expenses in respect of ALM derivative instruments - according to the new presentation format		(28)
Net expenses in respect of ALM derivative instruments - according to the previous presentation format		(766)
Net expenses in respect of other derivative instruments - according to the new presentation format		(726)
Net income in respect of other derivative instruments - according to the previous presentation format		12

### E. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

Starting with the period beginning January 1, 2017, the Bank implements accounting standards and instructions as detailed hereunder:

- (1) Reporting according to U.S. generally accepted accounting principles regarding income taxes (see item 1 below);
- (2) Reporting according to U.S. generally accepted accounting principles regarding several issues - Circular dated March 21, 2016 (see item 2 below).

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

1. **Income Taxes.** The Supervisor of Banks issued on October 25, 2015, a circular in the matter of "reporting by banking corporations and credit card companies according to U.S. GAAP in the matter of Income Taxes". According to the circular, a banking corporation shall apply the accounting principles accepted by U.S. banks in the matter of income taxes, and, among other things, the principles of presentation, measurement and disclosure stated in Topic 740 of the codification regarding "Income Taxes" and in Item 740-830 of the codification regarding "Foreign Currency Matters – Income Taxes".

Upon its initial implementation, a banking corporation shall act in accordance with the transitional instructions determined with respect to such matters, mutatis mutandis, including the retroactive restatements of the comparative data, where required with respect to these matters.

On November 1, 2016, a circular was published in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP". The circular amends the Reporting to the Public Directives in view of the change to the application of U.S. GAAP regarding taxes on income, and is intended to assist banking corporations in the initial implementation of the rules determined in the new instructions. In accordance with the circular, inter alia, temporary differences in respect of prior periods will continue to be treated according to the instructions in effect until December 31, 2016, and will not be restated.

The Bank implements the said rules as from January 1, 2017. Until December 31, 2016, the Bank implemented in these matters the international financial reporting standards (IFRS), subject to the instructions and guidelines of the Supervisor of Banks.

From now onwards, the Bank is required to recognize deferred tax liabilities in respect of certain subsidiary companies (mostly in respect of current equity profits).

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

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

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

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

## 1. ACCOUNTING POLICIES (CONTINUED)

The Bank implements the said rules as from January 1, 2017.

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

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

1. **Recognition of income from contracts with customers.** Note 1 E 1 to the financial statements as of December 31, 2016, described the circular in this matter.

The amendments in the Directives will apply as from January 1, 2018.

The Bank began to examine the effect of the standard on its financial statements, but has not yet elected the alternative manner of implementation of the transitional instructions.

2. **Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated November 1, 2016.** Note 1 E 4 to the financial statements as of December 31, 2016, described the circular in this matter.

The provisions stated in the circular will take effect as from January 1, 2018 and thereafter. The Bank is studying the effect of the circular upon its financial statements.

3. **Financial instruments and credit losses.** In the months of January and June 2016, new rules were published in the United States in the matter of the treatment of financial instruments and credit losses (ASU 2016-13 and ASU 2016-01). The Supervisor of Banks has informed of his intention to update the banking corporations as to the manner and date of implementation in Israel of the said rules. The Bank has not yet begun to study the impact of the rules upon its financial statements. At this stage, the banks were asked to prepare for the safekeeping of the basic data that would be required for the implementation of the new rules.

4. **An updated FAQ file regarding the implementation of the public reporting instructions in the matter of impaired debts, credit risk and allowance for credit losses.** The updated file was published on February 20, 2017, and, inter alia, includes a question regarding the definition of the primary repayment source and the manner in which it is reflected in the classification of the debt as problematic.

In accordance with that stated in the circular a primary repayment source is a stable source of cash over a period of time that has to be under the control of the borrower, and must be separated, either explicitly or in substance, for the repayment of the debt. As a general rule, in order for the source of repayment to be recognized as a primary source of repayment, the bank has to show that a high probability exists for the expectations the borrower would produce, within a reasonable period of time, an appropriate cash flow from a continuous business activity, which would fully serve the debt on the date determined in the loan agreement. Alongside the primary repayment source, it is expected that nearly each of the credit transactions should have a secondary repayment source and even a third source (collateral, guarantor support, refinancing by a third party, etc.). Notwithstanding the support of the secondary and third repayment sources, the determination of the appropriate classification of the debt, until a default event occurs or until the probability thereof becomes expected at a high level, is generally based on the repayment ability of the borrower, namely, the expected strength of the primary repayment source.

These changes take effect as from July 1, 2017 and thereafter. Implementation of the changes may change the manner of classification and the amount of the allowance recorded in the books. The Bank studies the implications stemming from the application of the said definition.

### G. Reclassification

- (1) Interest income earned on tax refunds have been reclassified from the item "interest income" to the item "provision for taxes on profit", following the implementation as from January 1, 2017, of the new instructions regarding taxes on income, as described in item E 1 above.
- (2) The reclassification of municipal authority deposits from the "government deposits" item to the "deposits of the public" item, following a re-examination by a consolidated subsidiary.

## 2. INTEREST INCOME AND EXPENSES

	Unaudited For the three months ended March 31,	
	2017	2016
	in NIS millions	
<b>A. Interest Income<sup>(2)</sup></b>		
Credit to the public	1,282	1,092
Credit to the Governments	5	3
Deposits with the Bank of Israel and cash	7	6
Deposits with Banks	7	4
Securities borrowed or purchased under resale agreements	(4) <sub>-</sub>	(4) <sub>-</sub>
Bonds <sup>(1)</sup>	132	108
Other assets	7	(6) <sub>5</sub>
<b>Total interest income</b>	<b>1,440</b>	<b>1,218</b>
<b>B. Interest Expenses</b>		
Deposits from the public	(135)	(5) <sub>(70)</sub>
Deposits from the Government	(1)	(5) <sub>-</sub>
Deposits from banks	(8)	(7)
Securities loaned or sold under repurchase agreements	(34)	(38)
Bonds and subordinated debt notes	(94)	(53)
Other liabilities	(1)	(1)
<b>Total interest expenses</b>	<b>(273)</b>	<b>(169)</b>
<b>Interest Income, Net</b>	<b>1,167</b>	<b>1,049</b>
<b>C. Details of the net effect of hedge derivative instruments on interest income and expenses:</b>		
Interest expenses <sup>(3)(7)</sup>	(7)	(10)
<b>D. Accrual basis, interest income from bonds:</b>		
Held-to-maturity	43	42
Available-for-sale	84	68
Trading	5	(2)
Total included in interest income	132	108

### Footnotes:

- |  |    |    |
|--|----|----|
| (1) Financing income generated by mortgage backed securities (MBS) - in US \$ millions   | 11 | 11 |
| Financing income generated by mortgage backed securities (MBS) - in NIS millions   | 40 | 43 |
| (2) Including the effective component of hedging relationships.  |    |    |
| (3) Details of the effect of hedge derivative instruments on subsection A.   |    |    |
| (4) An amount lower than NIS 1 million.  |    |    |
| (5) Reclassified, see Note 1 G (2).  |    |    |
| (6) Reclassified, see Note 1 G (1).  |    |    |
| (7) Reclassified - Beginning with January 1, 2017, the data includes interest expense relating to hedge derivative instruments. As of December 31, 2016, the data included also the adjustment to fair value of such instruments. The comparative data has been reclassified accordingly |    |    |

### 3. NON-INTEREST FINANCING INCOME

	Unaudited For the three months ended March 31,	
	2017	2016
	in NIS millions	
<b>A. Non-interest financing income from operations not for trading purposes</b>		
<b>1. From operations in derivative instruments</b>		
Net expenses in respect of ALM derivative instruments <sup>(4)</sup>	<sup>(8)</sup> (28)	(327)
<b>Total from operations in derivative instruments</b>	<b>(28)</b>	<b>(327)</b>
<b>2. From investments in bonds<sup>(5)</sup>:</b>		
Gains on sale of available-for-sale bonds	90	63
Losses on sale of available-for-sale bonds	(4)	(2)
Provision for impairment of available-for-sale bonds	-	(3)
<b>Total from investments in bonds</b>	<b>86</b>	<b>58</b>
<b>3. Net exchange rate differences</b>	<b>829</b>	<b>333</b>
<b>4. Net profit (losses) from investments in shares:</b>		
Gains on sale of available-for-sale shares <sup>(3)</sup>	72	6
Losses on sale of available-for-sale shares <sup>(3)</sup>	<sup>(7)</sup> -	(12)
Provision for impairment of available-for-sale shares	(2)	-
Dividends from available-for-sale shares	5	2
Profit on sale of shares and activities of affiliated companies	5	18
<b>Total from investment in shares</b>	<b>80</b>	<b>14</b>
<b>5. Net profit in respect of loans sold</b>	<b>1</b>	<sup>(7)</sup> -
<b>Total non-interest financing income from operations not for trading purposes</b>	<b>968</b>	<b>78</b>
<b>B. Non-interest financing income from operations for trading purposes<sup>(6)</sup>:</b>		
Net income (losses) in respect of other derivative instruments	<sup>(8)</sup> (726)	8
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value <sup>(1)</sup>	(16)	10
Net realized and non-realized losses on adjustment of trading shares to fair value <sup>(2)</sup>	(1)	<sup>(7)</sup> -
<b>Total from trading operations<sup>(6)</sup></b>	<b>(743)</b>	<b>18</b>
<b>Details of non-interest financing income from operations for trading purposes, according to risk exposure:</b>		
Interest rate exposure	9	12
Foreign currency exposure	(754)	3
Share exposure	2	3
<b>Total according to risk exposure</b>	<b>(743)</b>	<b>18</b>
<b>Total non-interest financing income</b>	<b>225</b>	<b>96</b>

Footnotes:

(1) Of which, a part of the profit (losses) relating to trading bonds that are still on hand at balance sheet date	(1)	9
(2) Of which, a part of the losses relating to trading shares that are still on hand at balance sheet date	(1)	(1)
(3) Reclassified from accumulated other comprehensive income, see Note 4:		
Of which profit, from investments in bonds, net	86	61
Of which, from investment in shares	<sup>(7)</sup> -	<sup>(7)</sup> -
(4) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.		
(5) Including exchange rate differences from trading operations.		
(6) For interest income on investments in trading bonds, see Note 2, above.		
(7) An amount lower than NIS 1 million.		
(8) For details regarding the change in the format of presentation, see Note 1 D above.		

## 4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Other comprehensive income, before attribution to non-controlling rights holders				Other comprehensive income attributed to non-controlling rights holders		Other comprehensive income attributed to the Bank's shareholders
	Adjustments, net, for presentation of available-for-sale securities at fair value	Financial statements translation adjustments, net after hedge effects <sup>(1)</sup>	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
in NIS millions							
<b>1. For the three months ended March 31, 2017 and 2016 (unaudited)</b>							
Balance at December 31, 2016 (audited)	86	22	1	(511)	(402)	(5)	(397)
Net change during the period	(16)	(190)	(1)	33	(174)	<sup>(2)</sup> -	(174)
<b>Balance at March 31, 2017</b>	<b>70</b>	<b>(168)</b>	<b>-</b>	<b>(478)</b>	<b>(576)</b>	<b>(5)</b>	<b>(571)</b>
Balance at December 31, 2015 (audited)	162	66	<sup>(2)</sup> -	(334)	(106)	(1)	(105)
Net change during the period	69	(116)	1	(153)	(199)	(2)	(197)
<b>Balance at March 31, 2016</b>	<b>231</b>	<b>(50)</b>	<b>1</b>	<b>(487)</b>	<b>(305)</b>	<b>(3)</b>	<b>(302)</b>
<b>2. For the year of 2016 (audited)</b>							
Balance at December 31, 2015	162	66	<sup>(2)</sup> -	(334)	(106)	(1)	(105)
Net change during the year	(76)	(44)	1	(177)	(296)	(4)	(292)
<b>Balance at December 31, 2016</b>	<b>86</b>	<b>22</b>	<b>1</b>	<b>(511)</b>	<b>(402)</b>	<b>(5)</b>	<b>(397)</b>

Footnotes:

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

(2) An amount lower than NIS 1 million.

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

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

	Unaudited						Audited		
	For the three months ended March 31						For the year ended December 31		
	2017			2016			2016		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
in NIS millions									
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling rights holders:									
Adjustments for presentation of available-for-sale securities at fair value									
Net unrealized Profit (loss) from adjustments to fair value	60	(20)	40	170	(62)	108	20	(3)	17
Loss (profit) on available-for-sale securities reclassified to the statement of income <sup>(2)</sup>	(86)	30	(56)	(61)	22	(39)	(146)	53	(93)
<b>Net change during the period</b>	<b>(26)</b>	<b>10</b>	<b>(16)</b>	<b>109</b>	<b>(40)</b>	<b>69</b>	<b>(126)</b>	<b>50</b>	<b>(76)</b>
Translation adjustments									
Financial statements translation adjustments <sup>(1)</sup>	(190)	-	(190)	(116)	-	(116)	(44)	-	(44)
<b>Net change during the period</b>	<b>(190)</b>	<b>-</b>	<b>(190)</b>	<b>(116)</b>	<b>-</b>	<b>(116)</b>	<b>(44)</b>	<b>-</b>	<b>(44)</b>
Cash flow hedging									
Net profit (loss) in respect of cash flow hedging	(4) <sub>L</sub>	(4) <sub>L</sub>	-	1	(1)	-	(4) <sub>L</sub>	(4) <sub>L</sub>	-
Net (profit) loss in respect of cash flow hedging reclassified to the statement of income	(1)	(4) <sub>L</sub>	(1)	1	-	1	2	(1)	1
<b>Net change during the period</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>2</b>	<b>(1)</b>	<b>1</b>	<b>2</b>	<b>(1)</b>	<b>1</b>
Employee benefits									
Net actuarial profit (loss)	28	(10)	18	(234)	77	(157)	(430)	117	(313)
Loss reclassified to the statement of income <sup>(3)</sup>	23	(8)	15	7	(3)	4	191	(55)	136
<b>Net change during the period</b>	<b>51</b>	<b>(18)</b>	<b>33</b>	<b>(227)</b>	<b>74</b>	<b>(153)</b>	<b>(239)</b>	<b>62</b>	<b>(177)</b>
<b>Total net change during the period</b>	<b>(166)</b>	<b>(8)</b>	<b>(174)</b>	<b>(232)</b>	<b>33</b>	<b>(199)</b>	<b>(407)</b>	<b>111</b>	<b>(296)</b>
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:									
<b>Total net change during the period</b>	<b>(4)<sub>L</sub></b>	<b>(4)<sub>L</sub></b>	<b>-</b>	<b>(2)</b>	<b>(4)<sub>L</sub></b>	<b>(2)</b>	<b>(5)</b>	<b>1</b>	<b>(4)</b>
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
<b>Total net change during the period</b>	<b>(166)</b>	<b>(8)</b>	<b>(174)</b>	<b>(230)</b>	<b>33</b>	<b>(197)</b>	<b>(402)</b>	<b>110</b>	<b>(292)</b>

Footnotes:

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

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

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

(4) An amount lower than NIS 1 million.



## 5. SECURITIES

### A. COMPOSITION

Unaudited					
March 31, 2017					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(1) Held-to-maturity bonds</b>					
Bonds and loans:					
Of the Israeli Government	3,548	3,548	237	-	3,785
Of foreign governments	109	109	-	(8)₋	109
Of Israeli financial institutions	84	84	3	-	87
Of foreign financial institutions	33	33	-	(8)₋	33
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	676	676	5	10	671
Of others abroad <sup>(6)</sup>	1,448	1,448	48	2	1,494
<b>Total held-to-maturity bonds</b>	<b>5,898</b>	<b>(2)5,898</b>	<b>293</b>	<b>12</b>	<b>6,179</b>

Unaudited					
March 31, 2017					
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value <sup>(1)</sup>
Accumulated other comprehensive income					
In NIS millions					
<b>(2) Available for sale securities</b>					
Bonds and loans:					
Of the Israeli Government	16,282	16,196	105	19	16,282
Of foreign governments	711	710	2	1	711
Of Israeli financial institutions	57	56	1	(8)₋	57
Of foreign financial institutions	989	983	9	3	989
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,207	7,272	11	76	7,207
Of others in Israel*	380	370	11	1	380
Of others abroad <sup>(7)</sup>	1,151	1,133	20	2	1,151
Total bonds	26,777	26,720	159	102	(2)26,777
Shares	941	932	10	1	(4)941
<b>Total available-for-sale securities</b>	<b>27,718</b>	<b>27,652</b>	<b>(3)169</b>	<b>(3)103</b>	<b>27,718</b>
* Of which: Bonds backed by State guarantees	123	123	(8)₋	-	123

For footnotes see next page.

## 5. SECURITIES (CONTINUED)

### A. COMPOSITION (CONTINUED)

Unaudited					
March 31, 2017					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(3) Trading Securities</b>					
Bonds and loans:					
Of the Israeli Government	2,391	2,391	2	2	2,391
Of Israeli financial institutions	25	25	(8)₋	-	25
Of foreign financial institutions	36	36	-	(8)₋	36
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	53	54	(8)₋	1	53
Of others in Israel*	36	36	(8)₋	(8)₋	36
Of others abroad	21	21	-	(8)₋	21
Total bonds	2,562	2,563	2	3	2,562
Shares	9	10	(8)₋	1	9
<b>Total trading securities</b>	<b>2,571</b>	<b>2,573</b>	<b>(5)2</b>	<b>(5)4</b>	<b>2,571</b>
* Of which: Bonds backed by State guarantees	6	6	(8)₋	-	6
<b>Total securities</b>	<b>36,187</b>	<b>36,123</b>	<b>464</b>	<b>119</b>	<b>36,468</b>

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 517 million (approx. US\$ 142 million) and from the available for sale portfolio with a market value of NIS 3,246 million (approx. US\$ 894 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 865 million.
- (5) Recorded in the statement of profit and loss.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,449 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 62 million (Book value).
- (8) An amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

### A. COMPOSITION (CONTINUED)

Unaudited					
March 31, 2016					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(1) Held-to-maturity bonds</b>					
Bonds and loans:					
Of the Israeli Government	3,830	3,830	333	-	4,163
Of foreign governments	114	114	<sup>(8)</sup> -	-	114
Of Israeli financial institutions	85	85	5	-	90
Of foreign financial institutions	34	34	-	1	33
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	959	959	15	4	970
Of others abroad <sup>(6)</sup>	1,815	1,815	93	<sup>(8)</sup> -	1,908
<b>Total held-to-maturity bonds</b>	<b>6,837</b>	<b><sup>(2)</sup>6,837</b>	<b>446</b>	<b>5</b>	<b>7,278</b>

Unaudited					
March 31, 2016					
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value <sup>(1)</sup>
Accumulated other comprehensive income					
In NIS millions					
<b>(2) Available for sale securities</b>					
Bonds and loans:					
Of the Israeli Government	15,060	14,790	277	7	15,060
Of foreign governments	821	826	1	6	821
Of Israeli financial institutions	186	185	3	2	186
Of foreign financial institutions	1,517	1,537	8	28	1,517
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,387	7,329	76	18	7,387
Of others in Israel*	425	409	17	1	425
Of others abroad <sup>(7)</sup>	1,461	1,456	13	8	1,461
Total bonds	26,857	26,532	395	70	<sup>(2)</sup> 26,857
Shares	874	871	4	1	<sup>(4)</sup> 874
<b>Total available-for-sale securities</b>	<b>27,731</b>	<b>27,403</b>	<b><sup>(3)</sup>399</b>	<b><sup>(3)</sup>71</b>	<b>27,731</b>
* Of which: Bonds backed by State guarantees	121	120	1	-	121

For footnotes see next page.

## 5. SECURITIES (CONTINUED)

### A. COMPOSITION (CONTINUED)

Unaudited					
March 31, 2016					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(3) Trading Securities</b>					
Bonds and loans:					
Of the Israeli Government	3,376	3,369	8	1	3,376
Of foreign financial institutions	5	5	<sup>(8)</sup> -	-	5
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	58	57	1	<sup>(8)</sup> -	58
Of others in Israel	22	22	<sup>(8)</sup> -	<sup>(8)</sup> -	22
Of others abroad	28	27	1	-	28
Total bonds	3,489	3,480	10	1	3,489
Shares	7	8	1	2	7
<b>Total trading securities</b>	<b>3,496</b>	<b>3,488</b>	<b><sup>(5)</sup> 11</b>	<b><sup>(5)</sup> 3</b>	<b>3,496</b>
<b>Total securities<sup>(6)</sup></b>	<b>38,064</b>	<b>37,728</b>	<b>856</b>	<b>79</b>	<b>38,505</b>

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 709 million (approx. US\$ 188 million) and from the available for sale portfolio with a market value of NIS 3,543 million (approx. US\$ 938 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 798 million.
- (5) Recorded in the statement of income.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,815 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 68 million (Book value).
- (8) An amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

### A. COMPOSITION (CONTINUED)

Audited					
December 31, 2016					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(1) Held-to-maturity bonds</b>					
Bonds and loans:					
Of the Israeli Government	3,703	3,703	251	-	3,954
Of foreign governments	115	115	-	<sup>(8)</sup> -	115
Of Israeli financial institutions	83	83	3	-	86
Of foreign financial institutions	35	35	-	1	34
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	779	779	7	12	774
Of others abroad <sup>(6)</sup>	1,552	1,552	47	3	1,596
<b>Total held-to-maturity bonds</b>	<b>6,267</b>	<b><sup>(2)</sup>6,267</b>	<b>308</b>	<b>16</b>	<b>6,559</b>

Audited					
December 31, 2016					
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value <sup>(1)</sup>
Accumulated other comprehensive income					
In NIS millions					
<b>(2) Available for sale securities</b>					
Bonds and loans:					
Of the Israeli Government	16,564	16,448	144	28	16,564
Of foreign governments	918	926	1	9	918
Of Israeli financial institutions	58	57	1	<sup>(8)</sup> -	58
Of foreign financial institutions	1,154	1,152	8	6	1,154
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,683	7,747	14	78	7,683
Of others in Israel*	353	344	10	1	353
Of others abroad <sup>(7)</sup>	2,023	1,997	30	4	2,023
Total bonds	28,753	28,671	208	126	<sup>(2)</sup> 28,753
Shares	963	957	7	1	<sup>(4)</sup> 963
<b>Total available-for-sale securities</b>	<b>29,716</b>	<b>29,628</b>	<b><sup>(3)</sup>215</b>	<b><sup>(3)</sup>127</b>	<b>29,716</b>
* Of which: Bonds backed by State guarantees	124	124	<sup>(8)</sup> -	<sup>(8)</sup> -	124

For footnotes see next page.

## 5. SECURITIES (CONTINUED)

### A. COMPOSITION (CONTINUED)

Audited					
December 31, 2016					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value <sup>(1)</sup>
In NIS millions					
<b>(3) Trading Securities</b>					
Bonds and loans:					
Of the Israeli Government	2,568	2,570	2	4	2,568
Of foreign governments	21	21	-	(8)₋	21
Of Israeli financial institutions	14	14	-	(8)₋	14
Of foreign financial institutions	39	39	(8)₋	(8)₋	39
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	61	62	(8)₋	1	61
Of others in Israel	54	54	(8)₋	(8)₋	54
Of others abroad	65	67	-	2	65
Total bonds	2,822	2,827	2	7	2,822
Shares	13	13	1	1	13
<b>Total trading securities</b>	<b>2,835</b>	<b>2,840</b>	<b>(5)₃</b>	<b>(5)₈</b>	<b>2,835</b>
* Of which: Bonds backed by State guarantees	17	17	(8)₋	(8)₋	17
<b>Total securities</b>	<b>38,818</b>	<b>38,735</b>	<b>526</b>	<b>151</b>	<b>39,110</b>

Footnotes:

- (1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
- (2) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 587 million (approx. US\$ 153 million) and from the available for sale portfolio with a market value of NIS 3,442 million (approx. US\$ 895 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 853 million.
- (5) Recorded in the statement of profit and loss.
- (6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,553 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 65 million (Book value).
- (8) An amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

Unaudited								
March 31,2017								
	Less than 12 months				More than 12 months			
	Amortized cost	Unrecognized losses from adjustment to fair value			Amortized cost	Unrecognized losses from adjustment to fair value		
0-20%		20-40%	Total	0-20%		20-40%	Total	
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Of foreign governments	91	(1)₊	-	(1)₊	-	-	-	-
Of foreign financial institutions	-	-	-	-	33	(1)₊	-	(1)₊
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	269	2	-	2	294	8	-	8
Of others abroad	176	2	-	2	-	-	-	-
Total held-to-maturity bonds	536	4	-	4	327	8	-	8

Unaudited								
March 31,2016								
	Less than 12 months			More than 12 months				
	Unrecognized losses from adjustment to fair value			Unrecognized losses from adjustment to fair value				
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Of foreign financial institutions	-	-	-	-	34	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	161	1	-	1	272	3	-	3
Of others abroad	-	-	-	-	22	(1)	-	(1)
Total held-to-maturity bonds	161	1	-	1	328	4	-	4

Audited								
December 31, 2016								
	Less than 12 months				More than 12 months			
	Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value			
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
In NIS millions								
Held-to-maturity bonds								
Bonds and loans:								
Of foreign governments	96	(1)₊	-	(1)₊	-	-	-	-
Of foreign financial institutions	-	-	-	-	35	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	304	3	-	3	336	9	-	9
Of others abroad	225	3	-	3	-	-	-	-
Total held-to-maturity bonds	625	6	-	6	371	10	-	10

Footnote:

(1) An amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

Unaudited								
March 31, 2017								
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
In NIS millions								
Available for sale securities								
Bonds and loans:								
Of the Israeli Government	1,762	15	-	15	2,307	4	-	4
Of foreign governments	275	1	-	1	-	-	-	-
Of Israeli financial institutions	18	(1) <u>-</u>	-	(1) <u>-</u>	-	-	-	-
Of foreign financial institutions	261	1	-	1	145	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	4,911	59	-	59	525	17	-	17
Of others in Israel	42	(1) <u>-</u>	-	(1) <u>-</u>	20	1	-	1
Of others abroad	140	2	-	2	45	(1) <u>-</u>	-	(1) <u>-</u>
Total bonds	7,409	78	-	78	3,042	24	-	24
Shares	-	-	-	-	16	1	-	1
Total available-for-sale securities	7,409	78	-	78	3,058	25	-	25



## 5. SECURITIES (CONTINUED)

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

Unaudited								
March 31, 2016								
	Less than 12 months				More than 12 months			
	Unrealized losses				Unrealized losses			
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
In NIS millions								
<b>Available for sale securities</b>								
Bonds and loans:								
Of the Israeli Government	3,295	7	-	7	-	-	-	-
Of foreign governments	420	5	-	5	28	1	-	1
Of Israeli financial institutions	139	2	-	2	-	-	-	-
Of foreign financial institutions	465	21	-	21	246	7	-	7
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,007	2	-	2	1,135	16	-	16
Of others in Israel	82	1	-	1	-	-	-	-
Of others abroad	337	8	-	8	8	(1)	-	(1)
Total bonds	5,745	46	-	46	1,417	24	-	24
Shares	4	(1)	-	(1)	17	1	-	1
<b>Total available-for-sale securities</b>	<b>5,749</b>	<b>46</b>	<b>-</b>	<b>46</b>	<b>1,434</b>	<b>25</b>	<b>-</b>	<b>25</b>

Footnote:

(1) An amount lower than NIS 1 million.

Audited								
December 31, 2016								
	Less than 12 months				More than 12 months			
	Unrealized losses				Unrealized losses			
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
In NIS millions								
<b>Available for sale securities</b>								
Bonds and loans:								
Of the Israeli Government	7,714	28	-	28	-	-	-	-
Of foreign governments	579	5	-	5	167	4	-	4
Of Israeli financial institutions	18	(1)	-	(1)	-	-	-	-
Of foreign financial institutions	370	3	-	3	113	3	-	3
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	4,962	58	-	58	592	20	-	20
Of others in Israel	62	(1)	-	(1)	20	1	-	1
Of others abroad	228	2	-	2	85	2	-	2
Total bonds	13,933	96	-	96	977	30	-	30
Shares	4	(1)	-	(1)	17	1	-	1
<b>Total available-for-sale securities</b>	<b>13,937</b>	<b>96</b>	<b>-</b>	<b>96</b>	<b>994</b>	<b>31</b>	<b>-</b>	<b>31</b>

Footnote:

(1) An amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

- D. The securities portfolio, as of March 31, 2017, includes investments in asset backed securities, primarily investment in mortgage - backed securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed Securities - MBS", "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 12 to the financial statements as of December 31, 2016.
- E. Most of the unrealized losses at March 31, 2017 are attributed to certain factors, including changes in market interest rate subsequent to acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or its relevant subsidiaries estimates that it is not probable that they will be able to collect all the amounts owed to them, pursuant to the investment contracts. Since the Bank and the relevant subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for debt securities, might not be until maturity), the Bank and the relevant subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at March 31, 2017.
- F. **Fair value presentation.** The balances of securities as of March 31, 2017, March 31, 2016 and December 31, 2016, include securities amounting to NIS 29,424 million, NIS 30,429 million and NIS 31,698 million, respectively, that are presented at fair value.

## 5. SECURITIES (CONTINUED)

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

Unaudited				
March 31, 2017				
	Amortized cost	Unrealized gains from adjustment to fair value <sup>(1)</sup>	Unrealized losses from adjustment to fair value <sup>(1)</sup>	Fair value
In NIS millions				
<b>1. Mortgage-backed securities (MBS):</b>				
<b>Available-for-sale securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	1,198	2	7	1,193
Securities issued by FHLMC and FNMA	580	2	3	579
<b>Total mortgage-backed pass-through securities</b>	<b>1,778</b>	<b>4</b>	<b>10</b>	<b>1,772</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,313	5	66	5,252
<b>Total available-for-sale other mortgage-backed securities</b>	<b>5,313</b>	<b>5</b>	<b>66</b>	<b>5,252</b>
<b>Total available-for-sale MBS securities</b>	<b>7,091</b>	<b>9</b>	<b>76</b>	<b>7,024</b>
<b>Held-to-maturity securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	27	2	-	29
Securities issued by FHLMC and FNMA	18	1	-	19
<b>Total mortgage-backed pass-through securities</b>	<b>45</b>	<b>3</b>	<b>-</b>	<b>48</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	629	2	10	621
Other mortgage-backed securities	2	(2)	-	2
<b>Total held-to-maturity other mortgage-backed securities</b>	<b>631</b>	<b>2</b>	<b>10</b>	<b>623</b>
<b>Total held-to-maturity MBS securities</b>	<b>676</b>	<b>5</b>	<b>10</b>	<b>671</b>
<b>Trading securities</b>				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	(2)	(2)	-	-
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	54	(2)	1	53
<b>Total mortgage-backed trading securities (MBS)</b>	<b>54</b>	<b>-</b>	<b>1</b>	<b>53</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>7,821</b>	<b>14</b>	<b>87</b>	<b>7,748</b>
<b>2. Asset-backed available-for-sale securities (ABS)</b>				
Collateralized bonds CLO	181	2	-	183
<b>Total asset-backed available-for-sale securities (ABS)</b>	<b>181</b>	<b>2</b>	<b>-</b>	<b>183</b>
<b>Total mortgage and asset-backed securities</b>	<b>8,002</b>	<b>16</b>	<b>87</b>	<b>7,931</b>

Footnotes:

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

(2) Amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

Unaudited				
March 31, 2016				
	Amortized cost	Unrecognized gains from adjustment to fair value <sup>(1)</sup>	Unrecognized losses from adjustment to fair value <sup>(1)</sup>	Fair value
In NIS millions				
<b>1. Mortgage-backed securities (MBS):</b>				
<b>Available-for-sale securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	1,612	12	1	1,623
Securities issued by FHLMC and FNMA	728	14	-	742
<b>Total mortgage-backed pass-through securities</b>	<b>2,340</b>	<b>26</b>	<b>1</b>	<b>2,365</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,594	50	11	4,633
Other mortgage-backed securities	19	-	2	17
<b>Total available-for-sale other mortgage-backed securities</b>	<b>4,613</b>	<b>50</b>	<b>13</b>	<b>4,650</b>
<b>Total available-for-sale MBS securities</b>	<b>6,953</b>	<b>76</b>	<b>14</b>	<b>7,015</b>
<b>Held-to-maturity securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	35	2	-	37
Securities issued by FHLMC and FNMA	24	2	-	26
<b>Total mortgage-backed pass-through securities</b>	<b>59</b>	<b>4</b>	<b>-</b>	<b>63</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	864	6	4	866
Other mortgage-backed securities	36	5	-	41
<b>Total held-to-maturity other mortgage-backed securities</b>	<b>900</b>	<b>11</b>	<b>4</b>	<b>907</b>
<b>Total held-to-maturity MBS securities</b>	<b>959</b>	<b>15</b>	<b>4</b>	<b>970</b>
<b>Trading securities</b>				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	(2) <sub>L</sub>	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	56	1	(2) <sub>L</sub>	57
<b>Total mortgage-backed trading securities (MBS)</b>	<b>57</b>	<b>1</b>	<b>-</b>	<b>58</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>7,969</b>	<b>92</b>	<b>18</b>	<b>8,043</b>
<b>2. Asset-backed available-for-sale securities (ABS)</b>				
Collateralized bonds CLO	376	-	4	372
<b>Total asset-backed available-for-sale securities (ABS)</b>	<b>376</b>	<b>-</b>	<b>4</b>	<b>372</b>
<b>Total mortgage and asset-backed securities</b>	<b>8,345</b>	<b>92</b>	<b>22</b>	<b>8,415</b>

Footnotes:

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

(2) Amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

	Audited			
	December 31, 2016			
	Amortized cost	Unrealized gains from adjustment to fair value <sup>(1)</sup>	Unrealized losses from adjustment to fair value <sup>(1)</sup>	Fair value
	In NIS millions			
<b>Mortgage-backed securities (MBS):</b>				
<b>Available-for-sale securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	1,344	4	4	1,344
Securities issued by FHLMC and FNMA	640	3	3	640
<b>Total mortgage-backed pass-through securities</b>	<b>1,984</b>	<b>7</b>	<b>7</b>	<b>1,984</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,373	4	70	5,307
Other mortgage-backed securities	5	-	1	4
<b>Total available-for-sale other mortgage-backed securities</b>	<b>5,378</b>	<b>4</b>	<b>71</b>	<b>5,311</b>
<b>Total available-for-sale MBS securities</b>	<b>7,362</b>	<b>11</b>	<b>78</b>	<b>7,295</b>
<b>Held-to-maturity securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	30	2	-	32
Securities issued by FHLMC and FNMA	20	2	-	22
<b>Total mortgage-backed pass-through securities</b>	<b>50</b>	<b>4</b>	<b>-</b>	<b>54</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	716	2	12	706
Other mortgage-backed securities	13	1	-	14
<b>Total held-to-maturity other mortgage-backed securities</b>	<b>729</b>	<b>3</b>	<b>12</b>	<b>720</b>
<b>Total held-to-maturity MBS securities</b>	<b>779</b>	<b>7</b>	<b>12</b>	<b>774</b>
<b>Trading securities</b>				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	(2)-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	61	(2)-	1	60
<b>Total mortgage-backed trading securities (MBS)</b>	<b>62</b>	<b>-</b>	<b>1</b>	<b>61</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>8,203</b>	<b>18</b>	<b>91</b>	<b>8,130</b>
<b>2. Asset-backed available-for-sale securities (ABS):</b>				
Bonds of the CLO type	385	3	-	388
<b>Total asset-backed available-for-sale securities (ABS)</b>	<b>385</b>	<b>3</b>	<b>-</b>	<b>388</b>
<b>Total mortgage and asset-backed securities</b>	<b>8,588</b>	<b>21</b>	<b>91</b>	<b>8,518</b>

Footnotes:

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

(2) Amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

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

Unaudited				
March 31, 2017				
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
<b>1. Mortgage-backed securities (MBS):</b>				
<b>Available-for-sale securities</b>				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	745	7	-	-
Securities issued by FHLMC and FNMA	228	3	-	-
<b>Total mortgage-backed pass-through securities</b>	<b>973</b>	<b>10</b>	<b>-</b>	<b>-</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,938	49	525	17
<b>Total other mortgage-backed securities</b>	<b>3,938</b>	<b>49</b>	<b>525</b>	<b>17</b>
<b>Total available-for-sale MBS securities</b>	<b>4,911</b>	<b>59</b>	<b>525</b>	<b>17</b>
<b>Held-to-maturity securities</b>				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	266	2	286	8
<b>Total other mortgage-backed securities</b>	<b>266</b>	<b>2</b>	<b>286</b>	<b>8</b>
<b>Total held-to-maturity MBS securities</b>	<b>266</b>	<b>2</b>	<b>286</b>	<b>8</b>
<b>Trading securities</b>				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	38	1	(1)	(1)
<b>Total mortgage-backed trading securities (MBS)</b>	<b>38</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>5,215</b>	<b>62</b>	<b>811</b>	<b>25</b>

Footnote:

(1) Amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

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

Unaudited				
March 31, 2016				
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
1. Mortgage-backed securities (MBS):				
<b>Available-for-sale securities</b>				
A. Mortgage pass through securities:				
Securities guaranteed by GNMA	548	1	58	(1)₊
<b>Total mortgage backed pass through securities</b>	<b>548</b>	<b>1</b>	<b>58</b>	<b>-</b>
B. Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	365	1	782	10
Other MBS securities	-	-	17	2
<b>Total other mortgage backed securities</b>	<b>365</b>	<b>1</b>	<b>799</b>	<b>12</b>
<b>Total available-for-sale MBS securities</b>	<b>913</b>	<b>2</b>	<b>857</b>	<b>12</b>
<b>Held-to-maturity securities</b>				
Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	160	1	269	3
<b>Total other mortgage backed securities</b>	<b>160</b>	<b>1</b>	<b>269</b>	<b>3</b>
<b>Total held-to-maturity MBS securities</b>	<b>160</b>	<b>1</b>	<b>269</b>	<b>3</b>
<b>Trading securities</b>				
Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	14	(1)₊	1	(1)₊
<b>Total mortgage-backed trading securities (MBS)</b>	<b>14</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>1,087</b>	<b>3</b>	<b>1,127</b>	<b>15</b>
2. Asset-backed available-for-sale securities (ABS)				
Collateralized bonds CLO	94	(1)₊	278	4
<b>Total asset backed available-for-sale securities (ABS)</b>	<b>94</b>	<b>-</b>	<b>278</b>	<b>4</b>
<b>Total mortgage and asset backed securities</b>	<b>1,181</b>	<b>3</b>	<b>1,405</b>	<b>19</b>

Footnote:

(1) Amount lower than NIS 1 million.

## 5. SECURITIES (CONTINUED)

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

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

	Audited			
	December 31, 2016			
	Less than 12 months	12 months and over		
	Fair Unrealized	Fair Unrealized	Fair Unrealized	Fair Unrealized
	value	losses	value	losses
In NIS millions				
Mortgage-Backed Securities (MBS):				
<b>Available-for-sale securities</b>				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	685	4	-	-
Securities issued by FHLMC and FNMA	251	3	-	-
<b>Total mortgage-backed pass through securities</b>	<b>936</b>	<b>7</b>	<b>-</b>	<b>-</b>
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,026	51	587	19
Other MBS securities	-	-	5	1
<b>Total other mortgage-backed securities</b>	<b>4,026</b>	<b>51</b>	<b>592</b>	<b>20</b>
<b>Total available-for-sale MBS securities</b>	<b>4,962</b>	<b>58</b>	<b>592</b>	<b>20</b>
<b>Held-to-maturity securities</b>				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	301	3	327	9
<b>Total other mortgage-backed securities</b>	<b>301</b>	<b>3</b>	<b>327</b>	<b>9</b>
<b>Total held-to-maturity MBS securities</b>	<b>301</b>	<b>3</b>	<b>327</b>	<b>9</b>
<b>Trading securities</b>				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	43	1	1	(1)
<b>Total mortgage-backed trading securities (MBS)</b>	<b>43</b>	<b>1</b>	<b>1</b>	<b>-</b>
<b>Total mortgage-backed securities (MBS)</b>	<b>5,306</b>	<b>62</b>	<b>920</b>	<b>29</b>

Footnote:

(1) Amount lower than NIS 1 million.

### I. INFORMATION REGARDING IMPAIRED BONDS - CONSOLIDATED

	Unaudited		Audited
	March 31, 2017	March 31, 2016	December 31, 2016
In NIS millions			
Recorded amount of non accruing interest income impaired bonds	49	22	110



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

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

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

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

Unaudited						
March 31, 2017						
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
In NIS millions						
Recorded amount of debts:						
Examined on a specific basis <sup>(1)</sup>	65,267	-	523	65,790	3,404	69,194
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 253	26,480	-	26,733	-	26,733
Group - other	<sup>(2)</sup> 25,444	67	27,514	53,025	1,929	54,954
<b>Total debts*</b>	<b>90,964</b>	<b>26,547</b>	<b>28,037</b>	<b>145,548</b>	<b>5,333</b>	<b>150,881</b>
* Of which:						
Restructured troubled debts	1,905	-	45	1,950	-	1,950
Other Impaired debts	670	-	20	690	-	690
<b>Total balance of impaired debts</b>	<b>2,575</b>	<b>-</b>	<b>65</b>	<b>2,640</b>	<b>-</b>	<b>2,640</b>
Debts in arrears of 90 days or more	54	283	72	409	-	409
Other problematic debts	1,335	29	307	1,671	-	1,671
<b>Total Problematic debts</b>	<b>3,964</b>	<b>312</b>	<b>444</b>	<b>4,720</b>	<b>-</b>	<b>4,720</b>
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	1,107	-	11	1,118	-	1,118
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 3	<sup>(3)</sup> 170	-	173	-	173
Group - other	364	-	434	798	<sup>(4)</sup> -	798
<b>Total allowance for Credit Losses</b>	<b>1,474</b>	<b>170</b>	<b>445</b>	<b>2,089</b>	<b><sup>(4)</sup>-</b>	<b>2,089</b>
Of which: in respect of impaired debts	279	-	4	283	-	283

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 66,580 million and the allowance in its respect in an amount of NIS 835 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 258 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 98 million.
- (4) An amount lower than NIS 1 million.

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

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

Unaudited						
March 31, 2016						
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
In NIS millions						
<b>Recorded amount of debts:</b>						
Examined on a specific basis <sup>(1)</sup>	<sup>(4)</sup> 59,382	-	<sup>(4)</sup> 612	59,994	3,603	63,597
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 243	22,435	-	22,678	-	22,678
Group - other	<sup>(2)(4)</sup> 24,779	47	<sup>(4)</sup> 23,774	48,600	2,362	50,962
<b>Total debts*</b>	<b>84,404</b>	<b>22,482</b>	<b>24,386</b>	<b>131,272</b>	<b>5,965</b>	<b>137,237</b>
<b>* Of which:</b>						
Restructured troubled debts	1,595	-	48	1,643	-	1,643
Other Impaired debts	1,149	-	12	1,161	-	1,161
<b>Total balance of impaired debts</b>	<b>2,744</b>	<b>-</b>	<b>60</b>	<b>2,804</b>	<b>-</b>	<b>2,804</b>
Debts in arrears of 90 days or more	35	308	51	394	-	394
Other problematic debts	1,021	32	224	1,277	-	1,277
<b>Total Problematic debts</b>	<b>3,800</b>	<b>340</b>	<b>335</b>	<b>4,475</b>	<b>-</b>	<b>4,475</b>
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	<sup>(4)</sup> 1,202	-	<sup>(4)</sup> 11	1,213	1	1,214
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 2	<sup>(3)</sup> 168	-	170	-	170
Group - other	<sup>(4)</sup> 318	-	<sup>(4)</sup> 368	686	1	687
<b>Total allowance for Credit Losses</b>	<b>1,522</b>	<b>168</b>	<b>379</b>	<b>2,069</b>	<b>2</b>	<b>2,071</b>
Of which: in respect of impaired debts	482	-	2	484	-	484

#### Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 60,793 million and the allowance in its respect in an amount of NIS 730 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 248 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 81 million.
- (4) Reclassified - improvement of the classification to examine routes in the data of a subsidiary company.

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

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

Audited						
December 31, 2016						
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
In NIS millions						
<b>Recorded amount of debts:</b>						
Examined on a specific basis <sup>(1)</sup>	63,292	-	482	63,774	4,024	67,798
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 261	25,696	-	25,957	-	25,957
Group - other	<sup>(2)</sup> 26,247	68	26,858	53,173	1,803	54,976
<b>Total debts*</b>	<b>89,800</b>	<b>25,764</b>	<b>27,340</b>	<b>142,904</b>	<b>5,827</b>	<b>148,731</b>
<b>* Of which:</b>						
Restructured troubled debts	2,076	-	48	2,124	-	2,124
Other Impaired debts	806	-	13	819	-	819
<b>Total balance of impaired debts</b>	<b>2,882</b>	<b>-</b>	<b>61</b>	<b>2,943</b>	<b>-</b>	<b>2,943</b>
Debts in arrears of 90 days or more	59	299	82	440	-	440
Other problematic debts	1,366	29	294	1,689	-	1,689
<b>Total Problematic debts</b>	<b>4,307</b>	<b>328</b>	<b>437</b>	<b>5,072</b>	<b>-</b>	<b>5,072</b>
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 3	<sup>(3)</sup> 168	-	171	-	171
Group - other	362	-	423	785	<sup>(4)</sup> -	785
<b>Total allowance for Credit Losses</b>	<b>1,541</b>	<b>168</b>	<b>435</b>	<b>2,144</b>	<b>(4)-</b>	<b>2,144</b>
Of which: in respect of impaired debts	386	-	3	389	-	389

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 64,855 million and the allowance in its respect in an amount of NIS 799 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 266 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 2 million, computed on a group basis in amount of NIS 94 million.
- (4) An amount lower than NIS 1 million.

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

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

	Unaudited					Total
	Credit to the public			Total	Banks and Governments	
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Three months ended March 31, 2017						
Balance of allowance for credit losses, as at December 31, 2016 (audited)	1,702	168	469	2,339	(1)-	2,339
Expenses for credit loss	73	4	68	145	-	145
Accounting write-offs	(210)	(2)	(107)	(319)	-	(319)
Collection of debts written-off in previous years	77	-	49	126	-	126
Net accounting write-offs	(133)	(2)	(58)	(193)	-	(193)
Financial statements translation adjustments	(14)	-	(1)	(15)	-	(15)
<b>Balance of allowance for credit losses, as at March 31, 2017</b>	<b>1,628</b>	<b>170</b>	<b>478</b>	<b>2,276</b>	<b>(1)-</b>	<b>2,276</b>
Of which: In respect of off-balance sheet credit instruments	154	-	33	187	-	187
Three months ended March 31, 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	14	4	29	47	(1)	46
Accounting write-offs	(91)	(9)	(72)	(172)	-	(172)
Collection of debts written-off in previous years	78	-	48	126	-	126
Net accounting write-offs	(13)	(9)	(24)	(46)	-	(46)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
<b>Balance of allowance for credit losses, as at March 31, 2016</b>	<b>1,667</b>	<b>171</b>	<b>412</b>	<b>2,250</b>	<b>2</b>	<b>2,252</b>
Of which: In respect of off-balance sheet credit instruments	145	3	33	181	-	181

Footnote:

(1) An amount lower than NIS 1 million.

## 7. DEPOSITS FROM THE PUBLIC

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

	Unaudited		Audited
	March 31		December 31
	2017	2016	2016
	In NIS millions		
<b>In Israel</b>			
Demand deposits:			
Non-interest bearing	31,174	30,681	32,673
Interest bearing	30,394	28,049	30,957
<b>Total demand deposits</b>	<b>61,568</b>	<b>58,730</b>	<b>63,630</b>
Time deposits	85,378	77,410	82,268
<b>Total deposits in Israel*</b>	<b>146,946</b>	<b>136,140</b>	<b>145,898</b>
* Of which:			
Private individuals deposits	83,391	80,714	83,717
Institutional bodies deposits	14,960	11,498	13,185
Corporations and others deposits	48,595	43,928	48,996
<b>Outside Israel</b>			
Demand deposits:			
Non-interest bearing	4,137	<sup>(1)</sup> 4,376	4,489
Interest bearing	13,185	<sup>(1)</sup> 13,289	13,499
<b>Total demand deposits</b>	<b>17,322</b>	<b>17,665</b>	<b>17,988</b>
Time deposits	7,374	<sup>(2)</sup> 7,828	8,432
<b>Total deposits outside Israel</b>	<b>24,696</b>	<b>25,493</b>	<b>26,420</b>
<b>Total deposits from the public</b>	<b>171,642</b>	<b>161,633</b>	<b>172,318</b>

Notes:

(1) Not including balances classified as assets and liabilities held for sale.

(2) Reclassified - see Note 1 G (2).

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

	Unaudited		Audited
	March 31		December 31
	2017	2016	2016
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	65,855	<sup>(1)</sup> 62,792	65,085
Over 1 up to 10	48,511	<sup>(1)</sup> 46,974	49,980
Over 10 up to 100	24,218	<sup>(1)</sup> 22,951	24,462
Over 100 up to 500	15,850	16,809	19,998
Over 500	17,208	12,107	12,793
<b>Total</b>	<b>171,642</b>	<b>161,633</b>	<b>172,318</b>

Note:

(1) Reclassified - see Note 1 G (2).

## 8. EMPLOYEE BENEFITS

### A. DETAILS REGARDING THE BENEFITS

	Unaudited		Audited
	March 31		December 31
	2017	2016	2016
	in NIS millions		
<b>Severance pay:</b>			
The liability amount	3,334	3,601	3,367
Fair value of the program's assets	2,029	2,280	2,052
<b>Excess liabilities included in the other liabilities item</b>	<b>1,305</b>	<b>1,321</b>	<b>1,315</b>
<b>Amount that included in the other liabilities item:</b>			
Long-service ("jubilee") awards	334	448	352
Post retirement benefits to retirees	703	808	715
Vacation	158	169	142
Illness	6	7	7
<b>Total Excess liabilities included in the other liabilities item</b>	<b>2,506</b>	<b>2,753</b>	<b>2,531</b>
Of which – in respect of benefits to employees abroad	47	104	56

### B. DEFINED BENEFIT PLAN

#### 1. COMMITMENT AND FINANCING STATUS

##### 1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	Unaudited				Audited	
	For the three months ended March 31,				For the year ended December 31,	
	2017	2016	2017	2016	2016	
	Severance pay, retirement and pension		Post retirement retiree benefits		Severance pay, retirement and pension	Post retirement retiree benefits
	in NIS millions					
Commitment in respect of anticipated benefits at the beginning of the year	3,367	3,420	715	762	3,420	762
Cost of service	18	34	1	1	89	7
Cost of interest	26	30	7	8	106	31
Actuarial loss (profit)	(11)	173	(11)	45	504	(35)
Changes in foreign currency exchange rates	(9)	(7)	(2)	(1)	(3)	(1)
Benefits paid	(57)	(49)	(7)	(7)	(697)	(45)
Reductions	-	-	-	-	(52)	(4)
Commitment at the end of the period in respect of anticipated benefits	3,334	3,601	703	808	3,367	715
Commitment at the end of the period in respect of accumulated benefits <sup>(1)</sup>	2,839	2,901	703	808	2,870	715

Footnote:

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

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

## 8. EMPLOYEE BENEFITS (CONTINUED)

### B. DEFINED BENEFIT PLAN (CONTINUED)

#### 1. COMMITMENT AND FINANCING STATUS (CONTINUED)

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

	Unaudited		Audited
	March 31		December 31
	2017	2016	2016
Severance pay, retirement and pension			
	in NIS millions		
Commitment in respect of anticipated benefits	3,191	3,469	3,228
Commitment in respect of cumulative benefits	2,723	2,788	2,758
Fair value of the program's assets	1,892	2,150	1,919

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

	Unaudited		Audited
	March 31		December 31
	2017	2016	2016
Severance pay, retirement and pension			
	in NIS millions		
Commitment in respect of anticipated benefits	3,335	3,601	3,367
Fair value of the program's assets	2,029	2,280	2,051



## 8. EMPLOYEE BENEFITS (CONTINUED)

### B. DEFINED BENEFIT PLAN (CONTINUED)

#### 2. EXPENSE FOR THE PERIOD

#### 2.1 COMPONENTS OF NET BENEFIT COSTS RECOGNIZED IN THE STATEMENT OF PROFIT AND LOSS IN RESPECT OF DEFINED BENEFITS PENSION PLANS AND A DEFINED DEPOSIT

	Unaudited		Audited
	For the three months ended March 31,		For the year ended December
	2017	2016	2017
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	18	34	89
Cost of interest	26	30	106
Anticipated return on assets of the plan	(19)	(19)	(77)
Amortization of unrecognized amounts:			
Net actuarial loss	13	5	40
Cost of prior service	-	(1)	1
<b>Total amortization of unrecognized amounts</b>	<b>13</b>	<b>5</b>	<b>41</b>
Other, including loss from reduction or settlement	9	-	(2)143
<b>Total net cost of benefits</b>	<b>47</b>	<b>50</b>	<b>302</b>
<b>Total expense regarding defined deposits pension plans</b>	<b>45</b>	<b>37</b>	<b>153</b>
<b>Total expenses included in respect Severance pay, retirement and pension payments</b>	<b>92</b>	<b>87</b>	<b>455</b>
Severance pay, retirement and pension payments			
Cost of service	1	1	7
Cost of interest	7	8	31
Amortization of unrecognized amounts:			
Net actuarial loss	1	2	9
Cost of prior service	(1)	(1)	(1)
<b>Total amortization of unrecognized amounts</b>	<b>1</b>	<b>2</b>	<b>8</b>
Other, including income from reduction or settlement	-	-	(1)
<b>Total net cost of benefits</b>	<b>9</b>	<b>11</b>	<b>45</b>
<b>Total expenses included in respect Severance pay, retirement and pension payments</b>	<b>101</b>	<b>98</b>	<b>500</b>

Footnotes:

(1) Amount lower than NIS 1 million.

(2) Of which settlement NIS 141 million.

## 8. EMPLOYEE BENEFITS (CONTINUED)

### B. DEFINED BENEFIT PLAN (CONTINUED)

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

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

	Unaudited				Audited	
	For the three months ended March 31,				For the year ended	
	2017	2016	2017	2016	December, 31	
					Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions					
Net actuarial loss (profit) for the year	(11)	190	(11)	45	542	(29)
Amortization of actuarial loss	(13)	(5)	(1)	(2)	(40)	(9)
Amortization of credit (cost) in respect of prior service	-	(1)	(1)	(1)	(1)	1
Amortization of net liability in respect of the transition	(11)	-	-	-	(73)	(10)
Changes in foreign currency exchange rates	2	(1)	1	(1)	(1)	(1)
Other, including loss (profit) from reduction or settlement	(9)	-	-	-	(143)	1
<b>Total recognized in other comprehensive loss (income)</b>	<b>(42)</b>	<b>184</b>	<b>(11)</b>	<b>43</b>	<b>285</b>	<b>(46)</b>
<b>Total net cost of benefits<sup>(2)</sup></b>	<b>47</b>	<b>50</b>	<b>9</b>	<b>11</b>	<b>302</b>	<b>45</b>
<b>Total amount recognized in net cost of benefits and in other comprehensive income</b>	<b>5</b>	<b>234</b>	<b>(2)</b>	<b>54</b>	<b>587</b>	<b>(1)</b>

Footnotes:

(1) Amount lower than NIS 1 million.

(2) See item 2.1 above.

#### 2.3 ESTIMATE OF AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME EXPECTED TO BE AMORTIZED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME TO THE STATEMENT OF PROFIT AND LOSS DURING THE BALANCE OF 2017 AS AN EXPENSE (INCOME), BEFORE TAX EFFECT

	Unaudited	
	Severance pay, retirement and pension	Post retirement retiree benefits
	in NIS millions	
Net actuarial loss	36	3
Reduction	24	-
Net cost in respect of prior service	-	(1)
<b>Total amount expected to be amortized from other comprehensive income</b>	<b>60</b>	<b>2</b>

## 8. EMPLOYEE BENEFITS (CONTINUED)

### B. DEFINED BENEFIT PLAN (CONTINUED)

#### 3. ASSUMPTIONS

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

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

	Unaudited		Audited		Unaudited		Audited
	March 31		December 31		March 31		December 31
	2017	2016	2016		2017	2016	2016
	Severance pay, retirement and pension				Post retirement retiree benefits		
Discount rate	1.68%-2.28%	1.48%-2.11%	1.66%-2.22%	1.18%-2.41%	1.15%-2.18%		1.32%-2.32%

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

	Unaudited		Audited		Unaudited		Audited
	March 31		December 31		March 31		December 31
	2017	2016	2016		2017	2016	2016
	Severance pay, retirement and pension				Post retirement retiree benefits		
Discount rate	1.66%-2.22%	1.76%-2.49%	1.32%-2.49%		1.32%-2.32%	1.45%-2.59%	1.07%-2.59%

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

	Unaudited		Audited		Unaudited		Audited		Unaudited		Audited	
	Increase of one percentage point						Decrease of one percentage point					
	Severance pay, retirement and pension			Post retirement retiree benefits			Severance pay, retirement and pension			Post retirement retiree benefits		
	December			December			December			December		
	March 31		31	March 31		31	March 31		31	March 31		31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
	in NIS millions											
Discount rate	(294)	(290)	(329)	(45)	(84)	(48)	294	290	341	45	84	49

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

#### 4. CASH FLOW

##### 4.1 DEPOSITS

4. PERSONNEL				
	Unaudited			Audited
	Forecast <sup>(1)</sup>	Actual deposits		For the year ended December, 31
		For the three months ended March 31,		
	2017	2017	2016	2016
Severance pay, retirement and pension payments				
in NIS millions				
deposits	21	6	8	37

Footnote:

(1) Assessment of expected deposits with defined benefit pension plans during balance in 2017.

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

- (a) Adoption of Basel III instructions. Details in this matter were brought in Note 25, item 1, in the 2016 Annual Report.
- (b) Additional capital requirements in respect of housing loans. On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans. This requirement is applied gradually in equal quarterly installments, over eight consecutive quarters, starting on April 1, 2015 and until April 1, 2017.
- The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.17% (for the whole period).
- (c) Assessment of the effect of implementing the amended instructions in the matter of "capital requirements in respect of exposure to central counterparties". The amendments in this respect apply as from January 1, 2017 and thereafter. The effect of the initial implementation was negligible.
- (d) Relief regarding the efficiency plan. The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis; an amount of NIS 245 million net of tax; were eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years.

### E. CAPITAL FOR CALCULATING RATIO OF CAPITAL

	Unaudited		Audited
	March 31,		December 31,
	2017	2016	2016
	in NIS millions		
Common equity tier 1 after deductions	<sup>(1)</sup> 15,157	13,596	<sup>(1)</sup> 15,036
Additional tier 1 capital after deductions	890	1,068	1,068
Tier 1 capital	16,047	14,664	16,104
Tier 2 capital after deductions	5,588	5,205	5,020
<b>Total capital</b>	<b>21,635</b>	<b>19,869</b>	<b>21,124</b>

Footnote:

(1) See item "D" above.

### F. WEIGHTED RISK ASSETS BALANCE

	Unaudited		Audited
	March 31,		December 31,
	2017	2016	2016
	in NIS millions		
Credit risk	<sup>(1)</sup> 139,360	128,497	<sup>(1)</sup> 137,393
Market Risk	3,127	3,129	2,483
CVA risk	1,277	1,019	942
Operational risk	12,135	12,192	12,072
<b>Total weighted risk assets balance</b>	<b>155,899</b>	<b>144,837</b>	<b>152,890</b>

Footnote:

(1) The total weighted balances of the risk assets have been reduced by NIS 82 million (December 31, 2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

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

### G. RATIO OF CAPITAL RISK ASSETS

	Unaudited	Audited	
	March 31,	December 31,	
	2017	2016	2016
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	9.7	9.4	9.8
Ratio of total capital to risk assets	13.9	13.7	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	<sup>(4)</sup> 9.2	<sup>(4)</sup> 9.1	<sup>(4)</sup> 9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	<sup>(4)</sup> 12.7	<sup>(4)</sup> 12.6	<sup>(4)</sup> 12.7
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets	10.7	10.4	10.9
Ratio of total capital to risk assets	13.4	13.4	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	<sup>(5)</sup> 9.2	<sup>(5)</sup> 9.1	<sup>(5)</sup> 9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	<sup>(5)</sup> 12.7	<sup>(5)</sup> 12.6	<sup>(5)</sup> 12.7
2. Discount Bakcorp Inc. <sup>(1)</sup>			
Ratio of common equity tier 1 to risk assets	13.3	13.0	13.1
Ratio of total capital to risk assets	14.4	14.0	14.2
Ratio of minimum common equity tier 1 required in accordance with local regulation	<sup>(2)</sup> 4.5	<sup>(2)</sup> 4.5	<sup>(2)</sup> 4.5
Minimum total capital adequacy ratio required in accordance with local regulation	<sup>(2)</sup> 8.0	<sup>(2)</sup> 8.0	<sup>(2)</sup> 8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	14.1	13.9	14.4
Ratio of total capital to risk assets	15.4	15.4	15.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	9.0	9.0	9.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	<sup>(3)</sup> 12.5	<sup>(3)</sup> 12.5	<sup>(3)</sup> 12.5

Footnotes:

- (1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.
- (2) Beginning on January 1, 2015, IDB 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 0.17% (March 31, 2016: 0.08% ,December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.
- (5) With an addition of 0.18% (March 31, 2016: 0.08% ,December 31, 2016: 0.16%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

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

### H. CAPITAL COMPONENTS FOR CALCULATING RATIO OF CAPITAL

	Unaudited	Audited	
	March 31,	December	
	2017	2016	2016
	in NIS millions		
<b>A. Tier 1 capital</b>			
Common equity	15,185	13,627	14,936
Difference between common equity and common equity tier 1	(49)	115	104
Total common equity tier 1 before supervisory adjustments and deductions	15,136	13,742	15,040
<b>Supervisory adjustments and deductions</b>			
Goodwill and other intangible assets	160	142	160
Deferred tax assets	-	1	-
Supervisory adjustments and other deductions	5	3	2
Total supervisory adjustments and deductions	165	146	162
Total adjustments in respect to the efficiency plan	186	--	158
<b>Total common equity tier 1 after supervisory adjustments and deductions</b>	<b>15,157</b>	<b>13,596</b>	<b>15,036</b>
<b>B. Additional tier 1 capital</b>			
Additional tier 1 capital before deductions	890	1,068	1,068
<b>Total additional tier 1 capital after deductions</b>	<b>890</b>	<b>1,068</b>	<b>1,068</b>
<b>C. Tier 2 capital</b>			
Instruments before deductions	3,830	3,655	3,301
Provision before deductions	1,758	1,550	1,719
Total tier 2 capital before deductions	5,588	5,205	5,020
Deductions	-	--	-
<b>Total tier 2 capital</b>	<b>5,588</b>	<b>5,205</b>	<b>5,020</b>

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

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

	Unaudited		Audited
	March 31,		December 31,
	2017	2016	2016
	In %		
Ratio of common equity tier 1 to risk assets before applying the effect of the transition provisions in Directive 299 <sup>(1)</sup> and before the effect of the adjustments in respect to the efficiency plan	9.5	9.2	9.5
Effect of the provisional instructions	0.1	0.2	0.2
Ratio of common equity tier 1 to risk assets after applying the effect of the transition provisions in Directive 299 <sup>(1)</sup> and before the effect of the adjustments in respect to the efficiency plan	9.6	9.4	9.7
Effect of the adjustments in respect to the efficiency plan	0.1	–	0.1
Ratio of common equity tier 1 to risk assets after applying the effect of the transition provisions in Directive 299 <sup>(1)</sup> and after the effect of the adjustments in respect to the efficiency plan	9.7	9.4	9.8

Footnote:

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

2. **Leverage ratio according to Directives of the Supervisor of Banks<sup>(1)</sup>** - Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

The Directive took effect on January 1, 2015. Beginning of the implementation of the Directive is from January 1, 2018. Notwithstanding the above, a banking corporation, which on date of publication of the Directive matched the minimum leverage ratio, shall not fall below the minimum determined by the Directive.

	Unaudited		Audited
	March 31,		December 31,
	2017	2016	2016
	in NIS millions		
A. Consolidated			
Tier 1 capital	(1)16,047	(1)14,664	(1)16,104
Total exposures	243,731	228,659	243,900
In %			
Leverage ratio	6.6	6.4	6.6
Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Leverage ratio	6.6	6.6	6.6
Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
2. Discount Bakcorp Inc.			
Leverage ratio	9.7	9.5	9.6
Leverage ratio required by the Supervisor of Banks	4.0	4.0	4.0
3. Israel Credit Cards LTD.			
Leverage ratio	9.7	9.3	10.1
Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0

Footnote:

(1) For the effect of the transition provisions and the effect of the adjustments in respect to the efficiency plan, see item H,I.

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

3. Liquidity coverage ratio according to Directives of the Supervisor of Banks<sup>(1)</sup> - Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

**General.** The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

	Unaudited		Audited
	For the three months ended		
	March 31,	December 31,	
	2017	2016	2016
	In %		
<b>A. Consolidated</b>			
Liquidity coverage ratio	150.8	133.9	146.5
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
<b>B. The Bank</b>			
Liquidity coverage ratio	178.2	158.7	178.1
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
<b>C. Significant subsidiaries<sup>(1)</sup></b>			
Mercantile Discount Bank LTD. and its consolidated companies			
Liquidity coverage ratio	150.1	121.7	142.1
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented.



## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

### A. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS

	Unaudited	Audited	
	March 31	December 31	
	2017	2016	2016
	in NIS millions		
1. Long-term lease contracts - rent payable in future years:			
First year	104	117	114
Second year	92	109	103
Third year	75	91	84
Fourth year	54	72	63
Fifth year	47	58	56
Sixth year and thereafter	223	277	242
<b>Total</b>	<b>595</b>	<b>724</b>	<b>662</b>
2. Commitment to acquire buildings and equipment	49	56	70
3. Commitment to invest in private investment funds and in venture capital funds	476	451	519

### B. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS

#### 4. Various actions against the Bank and its consolidated subsidiaries:

As detailed in Note 26 C 12 to the financial statements as at December 31, 2016, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 1,644 million as of March 31, 2017.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 26 C sections 12 through 14 to the financial statements as at December 31, 2016. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 16 to the financial statements as at December 31, 2016.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

#### 4.1 Note 26 C 12.6 to the financial statements as of December 31, 2016, described a lawsuit filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC together with a motion for approval of the lawsuit as a class action suit.

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy.

In its verdict of December 8, 2016, the Court dismissed the action as well as the motion for its approval as a class action suit. On January 22, 2017, the Claimant filed an appeal against the verdict with the Supreme Court. The Appellant has to submit a summing-up brief by May 16, 2017. ICC has to submit its summing-up brief no later than July 16, 2017. A reply to this brief by the Appellant is to be submitted by September 17, 2017. The appeal is fixed for discussion on February 5, 2018.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

### B. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS (CONTINUED)

4.2 Note 26 C 12.8 to the financial statements as of December 31, 2016, described a lawsuit against the Bank filed on March 4, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit. According to the Appellant, the Bank allows customers to deviate from their approved credit facility in contradiction of Proper Conduct of Banking Business Directive No. 325, thus causing them to pay high and the maximum interest rates in respect of the deviation from their approved credit facility. It is further claimed that the Bank charges the customers account with a commission in respect of notice as to the deviation and/or a warning letter regarding such deviation. The Appellant notes that he is unable to quote an exact amount in respect of the damage caused, but in his opinion this amounts to hundreds of millions of NIS.

The Claimant has filed additional class actions on similar grounds and, in accordance with the Court's ruling from June 12, 2014, the additional lawsuits will be heard together with the claim described in this item.

An agreed motion for the withdrawal from the motion for approval was submitted on May 1, 2017.

4.3 Note 26 C 12.13 to the financial statements as of December 31, 2016, described a claim together with a motion for the claim to be approved as a class action against 10 banks, including the Bank and Mercantile Discount Bank filed on August 17, 2016, at the Tel Aviv District Court. The amount of the claim against all the defendants amounts to NIS 1 billion.

The motion concerns the collection of commissions, which do not appear on the full tariff list, from customers that are not a "small business". During February 2017, the Respondents filed a motion for the charging of the Appellants with a guarantee securing their expenses, as well as a motion for a deferral of the date for submission of their response until after a decision is given as regards the motion.

On May 7, 2017, the Court decided to admit the motion, instructing each of the Appellants to deposit by June 8, 2017, security in the amount of NIS 250 thousand. An Appellant not performing the deposit – its motion would be dismissed.

4.4 Note 26 C 13.4 to the financial statements as of December 31, 2016, described a claim brief received at the Bank on December 4, 2016, which was filed with the Federal Court in Australia, against the Bank and against twelve additional respondents (hereinafter: "the claim"). The claim was filed by the Liquidator of three Australian corporations that maintained accounts at the Bank. As argued in the claim brief, the Bank had provided banking services to the said corporations and their owners, which assisted them to evade the payment of taxes as well as conceal and hide income in Australia. The claim relates to various transactions in the aforesaid accounts in the years 1992 through 2009. The claim is stated by the Claimant at Australian dollar 100 million.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

5.1 Note 26 C 13.1 to the financial statements as of December 31, 2015, described a petition for approval of an action as a class action suit filed with the Tel Aviv District Court On June 19, 2000 by two borrowers of DMB against DMB and against the Israel Phoenix Insurance Co. Ltd., where the properties of the borrowers are insured. The action is for the amount of NIS 105 million (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

On December 25, 2000, the Court decided that whereas the arguments in this case are similar to those argued in another class action suit, as described in item 12.1 to Note 26 C to the financial statements as of December 31, 2015, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

### B. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS (CONTINUED)

- 5.2 Note 26 C 13.2 to the financial statements as of December 31, 2016, described a lawsuit against the Bank and against two additional defendants together with a motion for partial exemption from Court fees filed on April 9, 2016, with the Jerusalem District Court. The lawsuit was filed by a trustee in bankruptcy of a former CEO and shareholder of a group of companies who personally was also a guarantor for the debts of the group. According to the Plaintiff, the Bank, which had supported the group during its years of business operations, cancelled suddenly, with no prior notice, the credit facilities of the group with everything involved therein. The Plaintiff alleges that these actions taken by the Bank brought about the collapse of the group of companies, and as a result the economic and personal collapse of the bankrupt. It is further claimed that due to the conduct of the Bank, an investor pulled back from investing in the company. The total amount of the claim against all defendants, jointly and severally, is NIS 105 million. On January 26, 2017 a decision was given dismissing the motion for exemption from card fees. This decision was appealed against on February 14, 2017.
- The Bank response to the appeal was submitted on April 6, 2017. On May 1, 2017, the responses of the Official Receiver, supporting the appeal, and of the State Attorney, opposing the appeal, were submitted. A decision has not yet been given in the Appeal.
- 5.3 Note 26 C 13.3 to the financial statements as of December 31, 2016, described a lawsuit together with a motion for its approval as a class action suit against ICC and others filed on April 28, 2014, with the District Court Central Region. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies. The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses, in respect of transactions made by debit cards and pre-paid cards, for a period of twenty days, following the date of collection of the money by the credit card companies.
- On February 24, 2015, a motion for withdrawal from the claim was filed. A motion was filed with the Court on April 19, 2015, requesting the replacement of the parties applying for a withdrawal and their representatives by the Appellant and his representatives and to instruct the continuation of the proceedings by the Appellant and his representatives. On July 1, 2015, the Court approved the motion for withdrawal. Concurrently the Court approved the locating of alternative Claimant and his representative, who would undertake the conduct of the proceedings on behalf of the class.
- Following the decision of the Court, three motions have been submitted to the Court for the appointment of Appellants and representatives in this case and new Appellants and representatives were appointed. A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion. On December 22, 2016, ICC submitted its response to the motion for approval. The Appellant submitted his response on February 22, 2017. A preliminary hearing of the case was held on March 12, 2017. An additional preliminary hearing was fixed for October 29, 2017, so that the Appellants could do their utmost for the clarification, change and partial cancellation of the verdict given by the Antitrust Tribunal on March 7, 2012, in the matter of cross commission.
- 5.4 The Bank has been recently informed of an action submitted in the Federal Court in Australia against the Bank, against MDB and other banks in respect of accounts of two companies in liquidation, related to the companies being the subject of the claim discussed in Item 14.4 above. The claim was filed by the liquidator of the two companies claiming a refund of an amount of \$7.3 million, and of an amount of Australian \$ 9.3 million from the Bank. To the best of the Bank's knowledge, on March 30 2017, the Court in Australia approved the extraterritorial delivery of the action. Delivery itself has not yet been made.
- 5.5 Note 26 C 13.6 to the financial statements as of December 31, 2016, described an action together with a motion for approval of the action as a class action suit against the Bank and against four additional banks, filed on December 18, 2016 with the Central Region District Court. The Claimant argues that that the banks charge foreign currency transfer and handling fees that are not in accordance with the instructions of the full pricelist, as detailed in the Banking Rules (Customer service)(Commissions), 2008. It is argued that the pricelist instructions require banks to provide details of a particular fee rate (%), giving the possibility to state a minimum and maximum amount for the fee charged. It is argued that in actual fact, the banks charge a minimum fee on a gradual basis, the grading being based on the size of the amount transferred. It is alleged that the charging of a minimum fee in this manner is against the law. The Claimants state the amount of the claim against all the banks and for all class members at approx. NIS 500 million. The response by the Bank was submitted on April 23, 2017. A preliminary hearing was fixed for May 23, 2017.

## 10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

### B. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS (CONTINUED)

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5.6 Note 26 C 13.7 to the financial statements as of December 31, 2016, described a lawsuit against the Bank together with a motion for its approval as a class action suit filed on February 21, 2017, with the Tel Aviv- Jaffa District Court. The motion claims that the Bank charges customers entitled to be defined as a "small business", with commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess commissions.

The Claimants stated the amount of the claim at NIS 261 million.

7. **Discount Campus.** In 2016, Discount Leasing began initiating the Discount Campus in Rishon Le'Tzion, which is intended to house in the future the Head Office of the Bank and of its principal subsidiaries in Israel – MDB and ICC. To date, agreements have been signed for the purchase of land and for consultation regarding the planning of the project. During the first quarter of 2017, the Bank advanced processes for the establishment of the Campus, including completing the definition of the Discount Campus vision and the choosing of a manager for the project. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25,000 square meters will be constructed by the acquirer for its own purposes and that the aforesaid construction will take place within five years from the date of fulfilling a term which has not yet been fulfilled. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS<sup>(3)</sup>

Unaudited						
March 31, 2017						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives <sup>(1)</sup>						
Swaps	-	2,391	-	-	-	2,391
Total	-	2,391	-	-	-	2,391
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	2,391				
B. ALM derivatives <sup>(1)(2)</sup>						
Futures contracts	-	-	-	-	-	-
Forward contracts	7,104	-	620	-	-	7,724
Marketable option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Other option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	7	-	-	7
Swaps	203	11,691	18,987	-	-	30,881
Total	7,307	11,691	19,614	-	-	38,612
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	203	6,788				
C. Other derivatives <sup>(1)</sup>						
Futures contracts	-	421	-	84	6	511
Forward contracts	3,883	700	12,299	-	5	16,887
Marketable option contracts						
Options written	-	-	2,768	4,493	-	7,261
Options purchased	-	-	2,760	4,493	-	7,253
Other option contracts						
Options written	-	2,795	8,463	588	30	11,876
Options purchased	-	2,513	8,165	596	32	11,306
Swaps	-	74,621	33,564	-	-	108,185
Total	3,883	81,050	68,019	10,254	73	163,279
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	33,990				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			1,815			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) For details regarding the change in presentation format, see Note 1 D above.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS<sup>(3)</sup> (CONTINUED)

Unaudited						
March 31, 2016						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives <sup>(1)</sup>						
Swaps	-	3,640	-	-	-	3,640
<b>Total</b>	<b>-</b>	<b>3,640</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,640</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,640				
B. ALM derivatives <sup>(1)(2)</sup>						
Futures contracts	-	780	-	-	-	780
Forward contracts	8,345	7,700	18,587	-	-	34,632
Marketable option contracts						
Options written	-	-	1,899	-	-	1,899
Options purchased	-	-	1,886	-	-	1,886
Other option contracts						
Options written	-	1,620	9,395	-	-	11,015
Options purchased	-	44	8,789	<sup>(4)</sup> -	-	8,833
Swaps	223	73,705	65,035	-	-	138,963
<b>Total</b>	<b>8,568</b>	<b>83,849</b>	<b>105,591</b>	<b>-</b>	<b>-</b>	<b>198,008</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	223	37,502				
C. Other derivatives <sup>(1)</sup>						
Futures contracts	-	35	-	-	22	57
Forward contracts	-	-	2,907	-	-	2,907
Marketable option contracts						
Options written	-	-	6	6,585	-	6,591
Options purchased	-	-	6	6,585	-	6,591
Other option contracts						
Options written	-	44	482	537	28	1,091
Options purchased	-	51	481	544	29	1,105
Swaps	-	6,337	-	-	-	6,337
<b>Total</b>	<b>-</b>	<b>6,467</b>	<b>3,882</b>	<b>14,251</b>	<b>79</b>	<b>24,679</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,134				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			7,793			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) For details regarding the change in presentation format, see Note 1 D above.

(4) An amount lower than NIS 1 million.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 1. PAR VALUE OF DERIVATIVE INSTRUMENTS<sup>(3)</sup> (CONTINUED)

Audited						
December 31, 2016						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives <sup>(1)</sup>						
Swaps	-	3,599	-	-	-	3,599
<b>Total</b>	<b>-</b>	<b>3,599</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,599</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,599				
B. ALM derivatives <sup>(1)(2)</sup>						
Futures contracts	-	385	-	-	-	385
Forward contracts	10,237	400	11,072	-	-	21,709
Marketable option contracts						
Options written	-	-	1,406	-	-	1,406
Options purchased	-	-	1,433	-	-	1,433
Other option contracts						
Options written	-	2,375	6,237	-	-	8,612
Options purchased	-	1,120	6,220	-	-	7,340
Swaps	228	76,312	58,468	-	-	135,008
<b>Total</b>	<b>10,465</b>	<b>80,592</b>	<b>84,836</b>	<b>-</b>	<b>-</b>	<b>175,893</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	228	37,576				
C. Other derivatives <sup>(1)</sup>						
Futures contracts	-	45	-	90	9	144
Forward contracts	-	-	2,477	-	-	2,477
Marketable option contracts						
Options written	-	-	4	6,998	-	7,002
Options purchased	-	-	4	6,998	-	7,002
Other option contracts						
Options written	-	74	295	616	32	1,017
Options purchased	-	85	288	625	33	1,031
Swaps	-	7,849	-	-	-	7,849
<b>Total</b>	<b>-</b>	<b>8,053</b>	<b>3,068</b>	<b>15,327</b>	<b>74</b>	<b>26,522</b>
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,890				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,051			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) For details regarding the change in presentation format, see Note 1 D above.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS<sup>(5)</sup>

Unaudited						
March 31, 2017						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives						
Positive gross fair value	-	41	-	-	-	41
Negative gross fair value	-	23	-	-	-	23
B. ALM derivatives <sup>(1)</sup>						
Positive gross fair value	67	105	206	-	-	378
Negative gross fair value	106	227	618	-	-	951
C. Other derivatives						
Positive gross fair value	108	1,343	796	392	(4)_	2,639
Negative gross fair value	72	1,392	838	391	(4)_	2,693
D.Total						
Positive gross fair value <sup>(2)</sup>	175	1,489	1,002	392	-	3,058
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments <sup>(2)</sup>	175	1,489	1,002	392	-	3,058
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	(4)_	-	53	369	(4)_	422
Negative gross fair value <sup>(3)</sup>	178	1,642	1,456	391	-	3,667
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments <sup>(3)</sup>	178	1,642	1,456	391	-	3,667
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	91	369	(4)_	460

For footnotes see page 134.



## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS<sup>(5)</sup> (CONTINUED)

Unaudited						
March 31, 2016						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives						
Positive gross fair value	-	-	-	-	-	-
Negative gross fair value	-	145	-	-	-	145
B. ALM derivatives <sup>(1)</sup>						
Positive gross fair value	199	1,959	1,289	<sup>(4)</sup> -	-	3,447
Negative gross fair value	180	2,260	1,639	-	-	4,079
C. Other derivatives						
Positive gross fair value	-	113	42	184	<sup>(4)</sup> -	339
Negative gross fair value	-	113	42	183	<sup>(4)</sup> -	338
D.Total						
Positive gross fair value <sup>(2)</sup>	199	2,072	1,331	184	-	3,786
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments <sup>(2)</sup>	199	2,072	1,331	184	-	3,786
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	<sup>(4)</sup> -	51	157	<sup>(4)</sup> -	208
Negative gross fair value <sup>(3)</sup>	180	2,518	1,681	183	-	4,562
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments <sup>(3)</sup>	180	2,518	1,681	183	-	4,562
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	<sup>(4)</sup> -	79	157	<sup>(4)</sup> -	236

For footnotes see next page.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

#### 2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS<sup>(5)</sup> (CONTINUED)

Audited						
December 31, 2016						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives						
Positive gross fair value	-	88	-	-	-	88
Negative gross fair value	-	34	-	-	-	34
B. ALM derivatives <sup>(1)</sup>						
Positive gross fair value	178	1,457	1,101	-	-	2,736
Negative gross fair value	160	1,694	1,234	-	-	3,088
C. Other derivatives						
Positive gross fair value	-	61	39	380	(4)₊	480
Negative gross fair value	-	61	36	379	(4)₊	476
D.Total						
Positive gross fair value <sup>(2)</sup>	178	1,606	1,140	380	-	3,304
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments <sup>(2)</sup>	178	1,606	1,140	380	-	3,304
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	(4)₊	35	356	(4)₊	391
Negative gross fair value <sup>(3)</sup>	160	1,789	1,270	379	-	3,598
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments <sup>(3)</sup>	160	1,789	1,270	379	-	3,598
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	1	70	356	(4)₊	427

Footnotes:

(1) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(2) Of which: NIS 24 million (March 31, 2016: NIS 25 million; December 31, 2016: NIS 21 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 28 million (March 31, 2016: NIS 27 million; December 31, 2016: NIS 28 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

(4) An amount lower than NIS 1 million.

(5) For details regarding the change in presentation format, see Note 1 D above.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### B. DERIVATIVE INSTRUMENTS CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT, ON A CONSOLIDATED BASIS

	Unaudited					Total
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	
In NIS millions						
March 31, 2017						
Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>	28	1,696	26	20	1,288	3,058
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(1,592)	(3)	<sup>(4)</sup> -	(219)	(1,814)
Credit risk mitigation in respect of cash collateral received	-	(29)	(4)	(17)	(21)	(71)
<b>Net amount of assets in respect of derivative instruments</b>	<b>28</b>	<b>75</b>	<b>19</b>	<b>3</b>	<b>1,048</b>	<b>1,173</b>
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	<sup>(5)</sup> 131	102	36	21	490	780
<b>Total credit risk in respect of derivative instruments</b>	<b>159</b>	<b>177</b>	<b>55</b>	<b>24</b>	<b>1,538</b>	<b>1,953</b>
Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup>	339	2,693	15	<sup>(4)</sup> -	620	3,667
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,592)	(3)	<sup>(4)</sup> -	(219)	(1,814)
Pledged cash collateral	-	(999)	-	-	(27)	(1,026)
<b>Net amount of liabilities in respect of derivative instruments</b>	<b>339</b>	<b>102</b>	<b>12</b>	<b>-</b>	<b>374</b>	<b>827</b>
March 31, 2016						
Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>	29	2,573	26	9	1,149	3,786
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,334)	(12)	-	(288)	(2,635)
Credit risk mitigation in respect of cash collateral received	-	(88)	-	-	(29)	(117)
<b>Net amount of assets in respect of derivative instruments</b>	<b>28</b>	<b>151</b>	<b>14</b>	<b>9</b>	<b>832</b>	<b>1,034</b>
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	-	69	70	18	504	661
<b>Total credit risk in respect of derivative instruments</b>	<b>28</b>	<b>220</b>	<b>84</b>	<b>27</b>	<b>1,336</b>	<b>1,695</b>
Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup>	68	3,739	192	-	563	4,562
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,334)	(12)	-	(288)	(2,635)
Pledged cash collateral	-	(976)	(4)	-	(8)	(988)
<b>Net amount of liabilities in respect of derivative instruments</b>	<b>67</b>	<b>429</b>	<b>176</b>	<b>-</b>	<b>267</b>	<b>939</b>

For footnotes see next page.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### B. DERIVATIVE INSTRUMENTS CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT, ON A CONSOLIDATED BASIS (CONTINUED)

	Audited					
	December 31, 2016					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
Balance sheet balance of assets in respect of derivative instruments <sup>(2)</sup>	130	2,164	23	-	987	3,304
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(1,794)	(6)	-	(307)	(2,108)
Credit risk mitigation in respect of cash collateral received	-	(280)	(3)	-	(34)	(317)
<b>Net amount of assets in respect of derivative instruments</b>	<b>129</b>	<b>90</b>	<b>14</b>	<b>-</b>	<b>646</b>	<b>879</b>
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	-	242	21	22	332	617
<b>Total credit risk in respect of derivative instruments</b>	<b>129</b>	<b>332</b>	<b>35</b>	<b>22</b>	<b>978</b>	<b>1,496</b>
Balance sheet balance of liabilities in respect of derivative instruments <sup>(3)</sup>	192	2,638	45	10	713	3,598
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(1,794)	(6)	-	(307)	(2,108)
Pledged cash collateral	-	(700)	-	(5)	-	(705)
<b>Net amount of liabilities in respect of derivative instruments</b>	<b>191</b>	<b>144</b>	<b>39</b>	<b>5</b>	<b>406</b>	<b>785</b>

Footnotes:

- (1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and the balance sheet amount of assets in respect of derivative instruments of the borrower.
- (2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,034 million included in the item assets in respect of derivative instruments (March 31, 2016: NIS 3,761 million; December 31, 2016: NIS 3,283 million).
- (3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,639 million included in the item liabilities in respect of derivative instruments (March 31, 2016: NIS 4,535 million; December 31, 2016: NIS 3,570 million).
- (4) An amount lower than NIS 1 million.
- (5) The amount stems from an amendment to Proper Conduct of Banking Business Directive in the matter of capital requirement for exposures to central counterparties, which came into effect on January 1, 2017.

## 11. DERIVATIVE INSTRUMENTS ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

### C. DUE DATES - PAR VALUE: CONSOLIDATED PERIOD END BALANCES

Unaudited					
	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
In NIS millions					
March 31, 2017					
Interest rate contracts					
Shekel/CPI	1,370	2,720	4,534	2,566	11,190
Other	8,141	22,611	34,790	29,590	95,132
Foreign currency contracts	49,554	29,753	7,232	2,909	89,448
Contracts on shares	8,696	407	1,151	-	10,254
Commodities and other contracts	10	44	19	-	73
<b>Total</b>	<b>67,771</b>	<b>55,535</b>	<b>47,726</b>	<b>35,065</b>	<b>206,097</b>
Unaudited					
March 31, 2016					
<b>Total</b>	<b>86,285</b>	<b>61,206</b>	<b>58,451</b>	<b>28,178</b>	<b>234,120</b>
Audited					
December 31, 2016					
<b>Total</b>	<b>72,360</b>	<b>52,068</b>	<b>49,762</b>	<b>33,875</b>	<b>208,065</b>

## 12. REGULATORY OPERATING SEGMENTS

A. Details regarding the regulatory segments were brought in Note 29a to the financial statements as of December 31, 2016. The principal assumptions, assessments and reporting principles used in the preparation of the data were detailed in Note 29 C in the financial statements as of December 31, 2016.

For details regarding administrative segments recognized by the Bank were brought in Note 30a to the financial statements as of December 31, 2016.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions were taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

### B. Reclassification

- (1) Reclassification of customers between segments, in view of improved data made available in respect of these customers.
- (2) Improvement of compatibility between the classification of risk assets between the different segments and the classification of the assets to those segments.

## 12. REGULATORY OPERATING SEGMENTS (CONTINUED)

### C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

Unaudited					
For the three months ended March 31, 2017					
Domestic operations					
	Households	Of which - Total Mortgages	Of which - Credit cards	Private Banking	Small and minute businesses
	in NIS millions				
Interest income From external sources	454	143	108	1	388
Interest expenses To external sources	41	-	-	20	15
Interest income, net From external sources	413	143	108	(19)	373
Interest income, net Intersegmental	(49)	(96)	(12)	32	(27)
Total Interest income, net	364	47	96	13	346
Non-interest financing income From external sources	766	4	194	424	372
Non-interest financing income Intersegmental	(443)	-	-	(407)	(212)
Total Non-interest financing income	323	4	194	17	160
<b>Total income</b>	<b>687</b>	<b>51</b>	<b>290</b>	<b>30</b>	<b>506</b>
Credit loss expenses (expenses reversal)	72	4	29	-	46
Operating and other expenses	723	29	208	31	332
Profit (loss) before taxes	(108)	18	53	(1)	128
Provision for taxes (tax savings) on profit	(35)	5	18	-	46
Profit (loss) after taxes	(73)	13	35	(1)	82
Bank's share in losses of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(73)	13	35	(1)	82
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(9)	-	(10)	-	(3)
<b>Net Profit (loss) Attributed to the bank's shareholders</b>	<b>(82)</b>	<b>13</b>	<b>25</b>	<b>(1)</b>	<b>79</b>
Average Assets	54,373	25,877	11,772	248	33,779
Of which - Investment in Investee companies	-	-	-	-	-
Average credit to the public <sup>(3)</sup>	53,508	25,979	11,644	182	33,334
Balance of credit to the public <sup>(3)</sup>	53,048	26,389	12,282	209	35,970
Balance of impaired debts	65	-	22	-	826
Balance of debts (not impaired) in arrear for over ninety days	355	283	-	-	49
Average Liabilities	72,931	240	2,346	15,435	33,030
Of which - Average Deposits from the public	68,348	-	19	15,329	28,910
Balance of Deposits from the public	67,941	-	21	15,450	27,128
Average Risk-assets <sup>(1)</sup>	38,201	14,446	8,795	401	36,129
Balance of Risk-assets <sup>(1)</sup>	38,563	14,657	8,900	415	37,111
Average assets under management <sup>(2)</sup>	35,473	472	-	19,240	28,489
Interest income, net:					
Margin from credit activity to the public	320	47	96	-	326
Margin from deposits activity from the public	44	-	-	13	20
Other	-	-	-	-	-
<b>Total Interest income, net</b>	<b>364</b>	<b>47</b>	<b>96</b>	<b>13</b>	<b>346</b>

Footnotes:

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

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

					Total Domestic operations	International operations	International total
	Medium businesses	Large businesses	Institutional bodies	Financial management			total
	83	164	-	85	1,175	265	1,440
	3	13	7	95	194	79	273
	80	151	(7)	(10)	981	186	1,167
	(14)	(36)	14	80	-	-	-
	66	115	7	70	981	186	1,167
	69	82	72	(912)	873	40	913
	(33)	(21)	(67)	1,183	-	-	-
	36	61	5	271	873	40	913
	<b>102</b>	<b>176</b>	<b>12</b>	<b>341</b>	<b>1,854</b>	<b>226</b>	<b>2,080</b>
	6	3	-	-	127	18	145
	59	69	18	66	1,298	134	1,432
	37	104	(6)	275	429	74	503
	13	38	(1)	92	153	29	182
	24	66	(5)	183	276	45	321
	-	-	-	(4)	(4)	-	(4)
	24	66	(5)	179	272	45	317
	(1)	(1)	-	-	(14)	-	(14)
	<b>23</b>	<b>65</b>	<b>(5)</b>	<b>179</b>	<b>258</b>	<b>45</b>	<b>303</b>
	10,684	21,540	1,107	63,814	185,545	34,359	219,904
	-	-	-	153	153	-	153
	10,678	21,491	986	-	120,179	21,328	141,507
	12,436	21,921	1,007	-	124,591	20,957	145,548
	311	579	587	-	2,368	272	2,640
	5	-	-	-	409	-	409
	7,174	16,295	13,621	15,689	174,175	30,808	204,983
	6,395	14,314	13,580	-	146,876	25,478	172,354
	6,369	15,098	14,960	-	146,946	24,696	171,642
	15,735	26,719	1,602	11,807	130,594	23,801	154,395
	14,854	28,101	1,652	12,191	132,887	23,012	155,899
	7,800	33,744	65,171	6,533	196,450	13,530	209,980
	62	111	2	-	821	97	918
	4	4	5	-	90	75	165
	-	-	-	70	70	14	84
	<b>66</b>	<b>115</b>	<b>7</b>	<b>70</b>	<b>981</b>	<b>186</b>	<b>1,167</b>

## 12. REGULATORY OPERATING SEGMENTS (CONTINUED)

### C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

	Unaudited				
	For the three months ended March 31, 2016 <sup>(6)</sup>				
	Domestic operations				
	Households			Private Banking	Small and minute businesses
		Of which -	Of which -		
	Total	Mortgages	Credit cards		
	in NIS millions				
Interest income From external sources	330	63	87	1	333
Interest expenses To external sources	23	-	-	13	9
Interest income, net From external sources	307	63	87	(12)	324
Interest income, net Intersegmental	2	(29)	(9)	26	(23)
<b>Total Interest income, net</b>	<b>309</b>	<b>34</b>	<b>78</b>	<b>14</b>	<b>301</b>
Non-interest financing income	494	3	177	234	223
Non-interest financing income Intersegmental	(187)	-	(1)	(214)	(75)
<b>Total Non-interest financing income</b>	<b>307</b>	<b>3</b>	<b>176</b>	<b>20</b>	<b>148</b>
<b>Total income</b>	<b>616</b>	<b>37</b>	<b>254</b>	<b>34</b>	<b>449</b>
Credit loss expenses (expenses reversal)	33	4	13	-	45
Operating and other expenses	716	30	174	34	323
Profit (loss) before taxes	(133)	3	67	-	81
Provision for taxes (tax savings) on profit <sup>(4)</sup>	(25)	2	28	-	34
<b>Profit (loss) after taxes</b>	<b>(108)</b>	<b>1</b>	<b>39</b>	<b>-</b>	<b>47</b>
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net income from ordinary operations before rights holders	(108)	1	39	-	47
Net income from ordinary operations Attributed to the non-controlling rights holders	(8)	-	(8)	-	(3)
<b>Net Income (loss) Attributed to the bank's shareholders</b>	<b>(116)</b>	<b>1</b>	<b>31</b>	<b>-</b>	<b>44</b>
Average Assets	47,324	21,895	10,620	263	30,430
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public <sup>(3)</sup>	46,211	22,004	10,376	190	29,930
Balance of credit to the public <sup>(3)</sup>	45,767	21,873	10,796	201	32,084
Balance of impaired debts	60	-	12	-	1,039
Balance of debts (not impaired) in arrear for over ninety days	359	306	-	-	29
Average Liabilities	69,222	39	2,280	16,035	28,705
Of which - Average Deposits from the public	65,773	-	16	15,927	24,853
Balance of deposits from the public	64,625	-	18	16,089	25,659
Average Risk-assets <sup>(1)</sup>	34,014	11,946	10,092	449	32,684
Balance of Risk-assets <sup>(1)</sup>	34,331	12,994	7,479	432	33,337
Average assets under management <sup>(2)</sup>	38,632	579	-	19,999	22,199
Interest income, net:					
Margin from credit activity to the public	271	34	78	-	286
Margin from deposits activity from the public	38	-	-	14	15
Other	-	-	-	-	-
<b>Total Interest income, net</b>	<b>309</b>	<b>34</b>	<b>78</b>	<b>14</b>	<b>301</b>

Footnotes:

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

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see Note 1 G (1) to the condensed financial statements.

(5) Reclassified - see Note 1 G (2) to the condensed financial statements.

(6) Reclassified - see item Note B (1) above.



	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	87	157	8	<sup>(4)</sup> 36	952	266	1,218
	2	6	4	33	90	79	169
	85	151	4	3	862	187	1,049
	(11)	(28)	4	30	-	-	-
	<b>74</b>	<b>123</b>	<b>8</b>	<b>33</b>	<b>862</b>	<b>187</b>	<b>1,049</b>
	54	29	29	(349)	714	68	782
	(18)	23	(25)	496	-	-	-
	<b>36</b>	<b>52</b>	<b>4</b>	<b>147</b>	<b>714</b>	<b>68</b>	<b>782</b>
	<b>110</b>	<b>175</b>	<b>12</b>	<b>180</b>	<b>1,576</b>	<b>255</b>	<b>1,831</b>
	21	(72)	-	-	27	19	46
	67	63	17	54	1,274	143	1,417
	22	184	(5)	126	275	93	368
	9	62	(1)	60	139	36	175
	<b>13</b>	<b>122</b>	<b>(4)</b>	<b>66</b>	<b>136</b>	<b>57</b>	<b>193</b>
	-	-	-	(1)	(1)	-	(1)
	13	122	(4)	65	135	57	192
	(1)	(2)	-	1	(13)	-	(13)
	<b>12</b>	<b>120</b>	<b>(4)</b>	<b>66</b>	<b>122</b>	<b>57</b>	<b>179</b>
	10,809	20,552	1,104	61,546	172,028	36,106	208,134
	-	-	-	141	141	-	141
	10,772	20,640	1,038	-	108,781	21,565	130,346
	11,736	19,679	1,080	-	110,547	20,725	131,272
	574	934	-	-	2,607	197	2,804
	6	-	-	-	394	-	394
	6,878	13,989	10,695	16,601	162,125	32,545	194,670
	6,133	11,294	10,656	-	134,636	<sup>(5)</sup> 27,232	161,868
	6,048	12,221	11,498	-	136,140	<sup>(5)</sup> 25,493	161,633
	16,383	24,635	1,233	10,572	119,970	24,149	144,119
	16,397	24,634	1,257	11,233	121,621	23,216	144,837
	5,175	28,884	54,588	6,276	175,753	12,885	188,638
	70	119	5	-	751	76	827
	4	4	3	-	78	78	156
	-	-	-	33	33	33	66
	<b>74</b>	<b>123</b>	<b>8</b>	<b><sup>(4)</sup>33</b>	<b>862</b>	<b>187</b>	<b>1,049</b>

## 12. REGULATORY OPERATING SEGMENTS (CONTINUED)

### C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

Audited					
For the year ended December 31, 2016					
Domestic operations					
	Households	Private Banking	Small and minute businesses		
	Of which - Total Mortgages	Of which - Credit cards			
	in NIS millions				
Interest income From external sources	1,704	549	386	3	1,494
Interest expenses To external sources	171	-	(2)	72	53
Interest income, net From external sources	1,533	549	388	(69)	1,441
Interest income, net Intersegmental	(187)	(395)	(35)	114	(123)
Total Interest income, net	1,346	154	353	45	1,318
Non-interest financing income From external sources	1,599	15	752	283	560
Non-interest financing income Intersegmental	(316)	-	-	(216)	44
Total Non-interest financing income	1,283	15	752	67	604
<b>Total income</b>	<b>2,629</b>	<b>169</b>	<b>1,105</b>	<b>112</b>	<b>1,922</b>
Credit loss expenses (expenses reversal)	216	8	73	1	90
Operating and other expenses	2,871	116	789	120	1,364
Profit (loss) before taxes	(458)	45	242	(9)	468
Provision for taxes (tax savings) on profit <sup>(5)</sup>	(94)	20	95	(1)	206
Profit (loss) after taxes	(364)	25	147	(8)	262
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(364)	25	147	(8)	262
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(41)	-	(41)	-	3
<b>Net Profit (loss) Attributed to the bank's shareholders</b>	<b>(405)</b>	<b>25</b>	<b>106</b>	<b>(8)</b>	<b>265</b>
Average Assets	50,174	23,382	11,107	228	32,168
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public <sup>(3)</sup>	49,230	23,484	10,993	162	31,708
Of which - Balance of credit to the public <sup>(3)</sup>	51,488	25,624	11,715	214	34,219
Balance of impaired debts	61	-	22	-	909
Balance of debts (not impaired) in arrear for over ninety days	381	299	-	-	51
Average Liabilities	71,388	19	2,341	14,595	30,765
Of which - Average Deposits from the public	66,917	-	18	14,485	26,838
Balance of deposits from the public	67,496	-	19	16,221	27,729
Average Risk-assets <sup>(1)</sup>	<sup>(6)</sup> 35,614	12,475	9,805	404	<sup>(6)</sup> 33,608
Balance of Risk-assets <sup>(1)</sup>	<sup>(6)</sup> 37,840	14,234	8,690	386	<sup>(6)</sup> 35,147
Average assets under management <sup>(2)</sup>	37,354	533	-	18,658	24,702
Interest income, net:					
Margin from credit activity to the public	1,183	154	353	1	1,255
Margin from deposits activity from the public	163	-	-	44	63
Other	-	-	-	-	-
<b>Total Interest income, net</b>	<b>1,346</b>	<b>154</b>	<b>353</b>	<b>45</b>	<b>1,318</b>

## Footnotes:

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

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) The effect of the transaction for the acquisition of VISA Europe, as described in Note 36 F to the financial statements as of December 31, 2016.

(5) Reclassified - see Note 1 G (1) to the condensed financial statements.

(6) Reclassified - see item B (2) above.

	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Total International operations	Total
	367	659	28	<sup>(5)</sup> 347	4,602	1,057	5,659
	11	34	23	425	789	313	1,102
	356	625	5	(78)	3,813	744	4,557
	(64)	(152)	27	385	-	-	-
	292	473	32	307	3,813	744	4,557
	151	239	50	332	3,214	225	3,439
	(4)	(18)	(33)	543	-	-	-
	147	221	17	<sup>(4)</sup> 875	3,214	225	3,439
	<b>439</b>	<b>694</b>	<b>49</b>	<b>1,182</b>	<b>7,027</b>	<b>969</b>	<b>7,996</b>
	46	(40)	30	-	343	126	469
	289	306	75	<sup>(4)</sup> 255	5,280	534	5,814
	104	428	(56)	927	1,404	309	1,713
	47	162	(18)	322	624	117	741
	57	266	(38)	605	780	192	972
	-	-	-	15	15	-	15
	57	266	(38)	620	795	192	987
	1	2	-	(47)	(82)	-	(82)
	<b>58</b>	<b>268</b>	<b>(38)</b>	<b>573</b>	<b>713</b>	<b>192</b>	<b>905</b>
	10,532	20,510	1,181	59,925	174,718	34,941	209,659
	-	-	-	143	143	-	143
	10,581	20,696	1,054	-	113,431	21,375	134,806
	12,398	21,438	1,047	-	120,804	22,100	142,904
	316	725	597	-	2,608	335	2,943
	7	1	-	-	440	-	440
	6,938	13,830	11,009	15,909	164,434	31,431	195,865
	6,189	12,025	10,973	-	137,427	26,048	163,475
	6,982	14,285	13,185	-	145,898	26,420	172,318
	<sup>(6)</sup> 16,605	25,108	1,294	<sup>(6)</sup> 11,409	124,042	23,980	148,022
	<sup>(6)</sup> 16,616	25,337	1,552	<sup>(6)</sup> 11,422	128,300	24,590	152,890
	7,502	29,528	57,708	6,326	181,778	13,139	194,917
	278	454	18	-	3,189	311	3,500
	14	19	14	-	317	399	716
	-	-	-	307	307	34	341
	<b>292</b>	<b>473</b>	<b>32</b>	<b>307</b>	<b>3,813</b>	<b>744</b>	<b>4,557</b>

### 13. MANAGERIAL OPERATING SEGMENTS

#### A. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS

	Unaudited				
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital <sup>(1)</sup>
In NIS millions					
For the three months ended March 31, 2017					
Interest income, net	519	120	168	70	-
Non-interest income	281	33	95	150	82
<b>Total income</b>	<b>800</b>	<b>153</b>	<b>263</b>	<b>220</b>	<b>82</b>
Credit loss expenses (expenses reversal)	90	18	(9)	-	-
Operating and other expenses	807	99	97	53	10
Income (loss) before taxes	(97)	36	175	167	72
Provision for taxes on income (Tax savings)	(32)	14	62	67	18
Income (loss) after taxes	(65)	22	113	100	54
Bank's share in income of affiliated companies, net of tax effect	1	-	-	-	(4)
Net income (loss) before attributed to the non-controlling rights holders	(64)	22	113	100	50
Net income attributed to the non-controlling rights holders	-	-	-	-	-
<b>Net income (loss) Attributed to the bank's shareholders</b>	<b>(64)</b>	<b>22</b>	<b>113</b>	<b>100</b>	<b>50</b>
Balance of Assets	65,059	16,908	38,677	66,360	1,328
Balance of credit to the public	63,207	17,049	37,476	-	-
Balance of deposits from the public	108,850	13,337	23,552	5,539	-

	Unaudited				
	Retail banking <sup>(5)</sup>	Middle market banking	Corporate banking	Financial management	Discount Capital <sup>(1)</sup>
For the three months ended March 31, 2016					
Interest income, net	462	<sup>(2)</sup> 115	<sup>(2)</sup> 168	<sup>(4)</sup> 34	-
Non-interest income	272	<sup>(2)</sup> 33	<sup>(2)</sup> 88	102	10
<b>Total income</b>	<b>734</b>	<b>148</b>	<b>256</b>	<b>136</b>	<b>10</b>
Credit loss expenses (expenses reversal)	32	<sup>(2)</sup> (8)	<sup>(2)</sup> (12)	1	-
Operating and other expenses	819	<sup>(2)</sup> 106	<sup>(2)</sup> 92	55	2
Income (loss) before taxes	(117)	50	176	80	8
Provision for taxes on income (Tax savings)	<sup>(4)</sup> (29)	<sup>(4)</sup> 20	<sup>(4)</sup> 64	<sup>(4)</sup> 52	1
Income (loss) after taxes	(88)	30	112	28	7
Bank's share in income of affiliated companies, net of tax effect	1	-	-	1	(2)
Net income (loss) before attributed to the non-controlling rights holders	(87)	30	112	29	5
Net income attributed to the non-controlling rights holders	-	-	-	-	-
<b>Net income (loss) Attributed to the bank's shareholders</b>	<b>(87)</b>	<b>30</b>	<b>112</b>	<b>29</b>	<b>5</b>
Balance of Assets	57,903	<sup>(2)</sup> 16,027	<sup>(2)</sup> 33,200	67,587	1,116
Balance of credit to the public	55,595	<sup>(2)</sup> 16,098	<sup>(2)</sup> 33,044	-	-
Balance of deposits from the public	104,832	<sup>(2)</sup> 12,696	<sup>(2)</sup> 17,880	5,810	-

footnotes:

(1) The contribution to the Bank's business results.

(2) See B below.

(3) Reclassified, see Note 1 G (2).

(4) Reclassified, see Note 1 G (1).

(5) See item C below.

	Discount Bancorp <sup>(1)</sup>	Israel Credit Cards <sup>(1)</sup>	Other	Adjustments	Total
	187	101	1	1	1,167
	47	259	5	(39)	913
	<b>234</b>	<b>360</b>	<b>6</b>	<b>(38)</b>	<b>2,080</b>
	18	27	-	1	145
	134	262	7	(37)	1,432
	82	71	(1)	(2)	503
	29	23	2	(1)	182
	53	48	(3)	(1)	321
	-	-	-	(1)	(4)
	53	48	(3)	(2)	317
	-	(14)	(1)	1	(14)
	<b>53</b>	<b>34</b>	<b>(4)</b>	<b>(1)</b>	<b>303</b>
	33,784	13,083	4,406	(20,509)	219,096
	20,957	12,706	-	(5,847)	145,548
	24,660	21	-	(4,317)	171,642
	Discount Bancorp <sup>(1)</sup>	Israel Credit Cards <sup>(1)</sup>	Other	Adjustments	Total
	188	<sup>(4)</sup> 80	1	1	1,049
	46	237	34	(40)	782
	<b>234</b>	<b>317</b>	<b>35</b>	<b>(39)</b>	<b>1,831</b>
	19	14	-	-	46
	135	233	13	(38)	1,417
	80	70	22	(1)	368
	29	<sup>(4)</sup> 27	10	1	175
	51	43	12	(2)	193
	-	-	-	(1)	(1)
	51	43	12	(3)	192
	-	(13)	(1)	1	(13)
	<b>51</b>	<b>30</b>	<b>11</b>	<b>(2)</b>	<b>179</b>
	35,008	11,212	5,295	(20,148)	207,200
	20,725	10,905	-	(5,095)	131,272
	<sup>(3)</sup> 25,453	18	-	(5,056)	161,633

### 13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

#### A. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Retail banking <sup>(5)</sup>	Middle market banking	Corporate banking	Financial management	Discount Capital <sup>(1)</sup>
For the year ended December 31, 2016					
In NIS millions					
Interest income, net	1,946	<sup>(2)</sup> 469	<sup>(2)</sup> 700	<sup>(4)</sup> 323	1
Non-interest income	1,104	<sup>(2)</sup> 135	<sup>(2)</sup> 342	367	109
<b>Total income</b>	<b>3,050</b>	<b>604</b>	<b>1,042</b>	<b>690</b>	<b>110</b>
Credit loss expenses	239	<sup>(2)</sup> (1)	<sup>(2)</sup> 15	14	-
Operating and other expenses	3,231	<sup>(2)</sup> 415	<sup>(2)</sup> 413	211	28
Income (loss) before taxes	(420)	190	614	465	82
Provision for taxes on income	<sup>(4)</sup> (81)	<sup>(2)(4)</sup> 77	<sup>(2)(4)</sup> 230	<sup>(4)</sup> 203	13
Income (loss) after taxes	(339)	113	384	262	69
Bank's share in income of affiliated companies, net of tax effect	1	-	-	7	9
Net income (loss) before attributed to the non-controlling rights holders	(338)	113	384	269	78
Net income attributed to the non-controlling rights holders	-	-	-	-	-
<b>Net income (loss) Attributed to the bank's shareholders</b>	<b>(338)</b>	<b>113</b>	<b>384</b>	<b>269</b>	<b>78</b>
Balance of Assets	63,733	<sup>(2)</sup> 16,277	<sup>(2)</sup> 37,645	67,941	1,267
Balance of credit to the public	61,690	<sup>(2)</sup> 16,379	<sup>(2)</sup> 36,349	-	-
Balance of deposits from the public	109,485	<sup>(2)</sup> 13,024	<sup>(2)</sup> 22,594	5,694	-

footnotes:

(1) The contribution to the Bank's business results.

(2) See B below.

(3) The effects of an arrangement in lieu of criminal proceedings, and the transaction for the acquisition of VISA Europe, as described in Note 36 Sections E (2) and F to the financial statements as of December 31, 2016, respectively.

(4) Reclassified, see Note 1 G (1).

**B. Change in the organizational structure.** Until December 31, 2016, the Commercial Banking Division of MDB included two operating segments: commercial banking and corporate banking. Respectively, these segments had been presented within such framework in the Note relating to managerial operating segments.

Following the reorganization made in the Commercial Banking Division of MDB, with effect as from January 1, 2017, the activity of the corporate wing of this Division has been merged into two commercial wings. Respectively, as from January 1, 2017, the activity of the corporate banking segment was merged into the commercial banking segment. The comparative data has been reclassified accordingly.

**C. Change in the organizational structure.** In the financial statements as of March 31, 2016, the customer asset segment was presented in accordance with the organizational structure that was in effect in the respective reporting periods. In view of the decision of the Bank's Board of Directors to abolish the Customer Asset Division and attach its units to existing divisions/groups at the Bank, the said segment is no longer presented separately. The data relating to private banking customers are presented now as part of the retail banking segment. The comparative data has been restated accordingly.

	Discount Bancorp <sup>(1)</sup>	Israel Credit Cards <sup>(1)</sup>	other	Adjustments	Total
	747	362	3	6	4,557
	208	<sup>(3)</sup> 1,260	71	(157)	3,439
	<b>955</b>	<b>1,622</b>	<b>74</b>	<b>(151)</b>	<b>7,996</b>
	127	75	-	-	469
	527	<sup>(3)</sup> 1,105	35	(151)	5,814
	301	442	39	-	1,713
	108	174	16	1	741
	193	268	23	(1)	972
	-	-	-	(2)	15
	193	268	23	(3)	987
	-	(82)	(2)	2	(82)
	<b>193</b>	<b>186</b>	<b>21</b>	<b>(1)</b>	<b>905</b>
	35,609	12,416	5,038	(20,349)	219,577
	22,100	12,043	-	(5,657)	142,904
	26,384	19	-	(4,882)	172,318

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

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

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS

#### 1. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans		Banks and Governments	Total
	In NIS millions					
	Three months ended March 31, 2017					
Balance of allowance for credit losses, as at December 31, 2016 (audited)	1,702	168	469	2,339	(1)-	2,339
Expenses for credit loss	73	4	68	145	-	145
Accounting write-offs	(210)	(2)	(107)	(319)	-	(319)
Collection of debts written-off in previous years	77	-	49	126	-	126
Net accounting write-offs	(133)	(2)	(58)	(193)	-	(193)
Financial statements translation adjustments	(14)	-	(1)	(15)	-	(15)
<b>Balance of allowance for credit losses, as at March 31, 2017</b>	<b>1,628</b>	<b>170</b>	<b>478</b>	<b>2,276</b>	<b>(1)-</b>	<b>2,276</b>
Of which: In respect of off-balance sheet credit instruments	154	-	33	187	-	187
	Three months ended March 31, 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	14	4	29	47	(1)	46
Accounting write-offs	(91)	(9)	(72)	(172)	-	(172)
Collection of debts written-off in previous years	78	-	48	126	-	126
Net accounting write-offs	(13)	(9)	(24)	(46)	-	(46)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
<b>Balance of allowance for credit losses, as at March 31, 2016</b>	<b>1,667</b>	<b>171</b>	<b>412</b>	<b>2,250</b>	<b>2</b>	<b>2,252</b>
Of which: In respect of off-balance sheet credit instruments	145	3	33	181	-	181

Footnote:

(1) An amount lower than NIS 1 million.



## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – CONSOLIDATED

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	March 31, 2017					
Recorded amount of debts:						
Examined on a specific basis <sup>(1)</sup>	65,267	-	523	65,790	3,404	69,194
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 253	26,480	-	26,733	-	26,733
Group - other	<sup>(2)</sup> 25,444	67	27,514	53,025	1,929	54,954
Total debts	90,964	26,547	28,037	145,548	5,333	150,881
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	1,107	-	11	1,118	-	1,118
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 3	<sup>(3)</sup> 170	-	173	-	173
Group - other	364	-	434	798	<sup>(4)</sup> -	798
Total allowance for Credit Losses	1,474	170	445	2,089	<sup>(4)</sup> -	2,089
March 31, 2016						
Recorded amount of debts:						
Examined on a specific basis <sup>(1)</sup>	<sup>(5)</sup> 59,382	-	<sup>(5)</sup> 612	59,994	3,603	63,597
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 243	22,435	-	22,678	-	22,678
Group - other	<sup>(2)(5)</sup> 24,779	47	<sup>(5)</sup> 23,774	48,600	2,362	50,962
Total debts	84,404	22,482	24,386	131,272	5,965	137,237
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	<sup>(5)</sup> 1,202	-	<sup>(5)</sup> 11	1,213	1	1,214
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 2	<sup>(3)</sup> 168	-	170	-	170
Group - other	<sup>(5)</sup> 318	-	<sup>(5)</sup> 368	686	1	687
Total allowance for Credit Losses	1,522	168	379	2,069	2	2,071

#### Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 66,580 million (March 31, 2016 - NIS 60,793 million) and the allowance in its respect in an amount of NIS 835 million (March 31, 2016 - NIS 730 million) computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 258 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of March 31, 2016 – an amount of NIS 248 million).
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million (March 31, 2016 - NIS 3 million), and computed on a group basis in an amount of NIS 98 million (March 31, 2016 - NIS 81 million).
- (4) An amount lower than NIS 1 million.
- (5) Reclassified - improvement of the classification to examine routes in the data of a subsidiary company.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – CONSOLIDATED (CONTINUED)

	Audited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2016					
Recorded amount of debts:						
Examined on a specific basis <sup>(1)</sup>	63,292	-	482	63,774	4,024	67,798
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(2)</sup> 261	25,696	-	25,957	-	25,957
Group - other	<sup>(2)</sup> 26,247	68	26,858	53,173	1,803	54,976
Total debts	89,800	25,764	27,340	142,904	5,827	148,731
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis <sup>(1)</sup>	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	<sup>(3)</sup> 3	<sup>(3)</sup> 168	-	171	-	171
Group - other	362	-	423	785	<sup>(4)</sup> -	785
Total allowance for Credit Losses	1,541	168	435	2,144	<sup>(4)</sup> -	2,144

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 64,855 million and the allowance in its respect in an amount of NIS 799 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 266 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 2 million, and computed on a group basis in an amount of NIS 94 million.
- (4) An amount lower than NIS 1 million.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS

#### 1. CREDIT QUALITY AND ARREARS - CONSOLIDATED

Unaudited						
March 31, 2017						
	Problematic <sup>(1)</sup>			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired <sup>(2)</sup>	Total	In Arrears of 90 Days or More <sup>(3)</sup>	In Arrears of 30 to 89 Days <sup>(4)</sup>
In NIS millions						
<b>Lending Activity in Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate - Construction	9,863	65	122	10,050	9	48
Construction and Real Estate - Real Estate Activity	7,744	16	258	8,018	4	9
Financial Services	6,601	3	646	7,250	1	9
Commercial - Other	41,679	890	1,166	43,735	40	131
<b>Total Commercial</b>	<b>65,887</b>	<b>974</b>	<b>2,192</b>	<b>69,053</b>	<b>54</b>	<b>197</b>
Private Individuals - Housing Loans	26,084	<sup>(5)</sup> 309	-	26,393	280	87
Private Individuals - Other Loans	26,246	379	65	26,690	72	192
<b>Total Public - Lending Activity in Israel</b>	<b>118,217</b>	<b>1,662</b>	<b>2,257</b>	<b>122,136</b>	<b>406</b>	<b>476</b>
Banks in Israel	557	-	-	557	-	-
Government of Israel	609	-	-	609	-	-
<b>Total Lending Activity in Israel</b>	<b>119,383</b>	<b>1,662</b>	<b>2,257</b>	<b>123,302</b>	<b>406</b>	<b>476</b>
<b>Lending Activity Outside of Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate	7,780	60	83	7,923	-	14
Commercial - Other	13,333	355	300	13,988	-	26
<b>Total Commercial</b>	<b>21,113</b>	<b>415</b>	<b>383</b>	<b>21,911</b>	<b>-</b>	<b>40</b>
Private Individuals	1,498	3	-	1,501	3	2
<b>Total Public - Lending Activity Outside of Israel</b>	<b>22,611</b>	<b>418</b>	<b>383</b>	<b>23,412</b>	<b>3</b>	<b>42</b>
Foreign banks	3,981	-	-	3,981	-	-
Foreign governments	186	-	-	186	-	-
<b>Total Lending Activity Outside of Israel</b>	<b>26,778</b>	<b>418</b>	<b>383</b>	<b>27,579</b>	<b>3</b>	<b>42</b>
<b>Total public</b>	<b>140,828</b>	<b>2,080</b>	<b>2,640</b>	<b>145,548</b>	<b>409</b>	<b>518</b>
<b>Total banks</b>	<b>4,538</b>	<b>-</b>	<b>-</b>	<b>4,538</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>795</b>	<b>-</b>	<b>-</b>	<b>795</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>146,161</b>	<b>2,080</b>	<b>2,640</b>	<b>150,881</b>	<b>409</b>	<b>518</b>

For footnotes see page 153.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

Unaudited						
March 31, 2016						
	Problematic <sup>(1)</sup>			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired <sup>(2)</sup>	Total	In Arrears of 90 Days or More <sup>(3)</sup>	In Arrears of 30 to 89 Days <sup>(4)</sup>
In NIS millions						
<b>Lending Activity in Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate - Construction	6,260	69	123	6,452	8	<sup>(6)</sup> 20
Construction and Real Estate - Real Estate Activity	9,137	277	263	9,677	1	<sup>(6)</sup> 14
Financial Services	6,397	3	109	6,509	3	1
Commercial - Other	37,310	444	1,790	39,544	22	<sup>(6)</sup> 125
<b>Total Commercial</b>	<b>59,104</b>	<b>793</b>	<b>2,285</b>	<b>62,182</b>	<b>34</b>	<b>160</b>
Private Individuals - Housing Loans	21,999	<sup>(5)</sup> 336	-	22,335	304	80
Private Individuals - Other Loans	22,684	275	60	23,019	51	<sup>(6)</sup> 147
<b>Total Public - Lending Activity in Israel</b>	<b>103,787</b>	<b>1,404</b>	<b>2,345</b>	<b>107,536</b>	<b>389</b>	<b>387</b>
Banks in Israel	824	-	-	824	-	-
Government of Israel	510	-	-	510	-	-
<b>Total Lending Activity in Israel</b>	<b>105,121</b>	<b>1,404</b>	<b>2,345</b>	<b>108,870</b>	<b>389</b>	<b>387</b>
<b>Lending Activity Outside of Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate	7,709	64	248	8,021	-	-
Commercial - Other	13,791	199	211	14,201	1	2
<b>Total Commercial</b>	<b>21,500</b>	<b>263</b>	<b>459</b>	<b>22,222</b>	<b>1</b>	<b>2</b>
Private Individuals	1,510	4	-	1,514	4	2
<b>Total Public - Lending Activity Outside of Israel</b>	<b>23,010</b>	<b>267</b>	<b>459</b>	<b>23,736</b>	<b>5</b>	<b>4</b>
Foreign banks	4,617	-	-	4,617	-	-
Foreign governments	14	-	-	14	-	-
<b>Total Lending Activity Outside of Israel</b>	<b>27,641</b>	<b>267</b>	<b>459</b>	<b>28,367</b>	<b>5</b>	<b>4</b>
<b>Total public</b>	<b>126,797</b>	<b>1,671</b>	<b>2,804</b>	<b>131,272</b>	<b>394</b>	<b>391</b>
<b>Total banks</b>	<b>5,441</b>	<b>-</b>	<b>-</b>	<b>5,441</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>524</b>	<b>-</b>	<b>-</b>	<b>524</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>132,762</b>	<b>1,671</b>	<b>2,804</b>	<b>137,237</b>	<b>394</b>	<b>391</b>

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

	Audited					
	December 31, 2016					
	Problematic <sup>(1)</sup>			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired <sup>(2)</sup>	Total	In Arrears of 90 Days or More <sup>(3)</sup>	In Arrears of 30 to 89 Days <sup>(4)</sup>
In NIS millions						
<b>Lending Activity in Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate - Construction	8,928	58	136	9,122	10	29
Construction and Real Estate - Real Estate Activity	7,809	7	265	8,081	1	13
Financial Services	6,234	4	666	6,904	3	7
Commercial - Other	40,248	985	1,317	42,550	44	129
<b>Total Commercial</b>	<b>63,219</b>	<b>1,054</b>	<b>2,384</b>	<b>66,657</b>	<b>58</b>	<b>178</b>
Private Individuals - Housing Loans	25,290	<sup>(5)</sup> 320	-	25,610	292	73
Private Individuals - Other Loans	25,458	376	61	25,895	82	190
<b>Total Public - Lending Activity in Israel</b>	<b>113,967</b>	<b>1,750</b>	<b>2,445</b>	<b>118,162</b>	<b>432</b>	<b>441</b>
Banks in Israel	130	-	-	130	-	-
Government of Israel	618	-	-	618	-	-
<b>Total Lending Activity in Israel</b>	<b>114,715</b>	<b>1,750</b>	<b>2,445</b>	<b>118,910</b>	<b>432</b>	<b>441</b>
<b>Lending Activity Outside of Israel</b>						
<b>Public - Commercial</b>						
Construction and Real Estate	7,990	64	128	8,182	-	1
Commercial - Other	14,284	307	370	14,961	1	1
<b>Total Commercial</b>	<b>22,274</b>	<b>371</b>	<b>498</b>	<b>23,143</b>	<b>1</b>	<b>2</b>
Private Individuals	1,591	8	-	1,599	7	2
<b>Total Public - Lending Activity Outside of Israel</b>	<b>23,865</b>	<b>379</b>	<b>498</b>	<b>24,742</b>	<b>8</b>	<b>4</b>
Foreign banks	4,960	-	-	4,960	-	-
Foreign governments	119	-	-	119	-	-
<b>Total Lending Activity Outside of Israel</b>	<b>28,944</b>	<b>379</b>	<b>498</b>	<b>29,821</b>	<b>8</b>	<b>4</b>
<b>Total public</b>	<b>137,832</b>	<b>2,129</b>	<b>2,943</b>	<b>142,904</b>	<b>440</b>	<b>445</b>
<b>Total banks</b>	<b>5,090</b>	<b>-</b>	<b>-</b>	<b>5,090</b>	<b>-</b>	<b>-</b>
<b>Total governments</b>	<b>737</b>	<b>-</b>	<b>-</b>	<b>737</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>143,659</b>	<b>2,129</b>	<b>2,943</b>	<b>148,731</b>	<b>440</b>	<b>445</b>

Footnotes:

- (1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.
- (2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.
- (3) Classified as unimpaired problematic debts. Accruing interest income.
- (4) Debts in arrears for between 30 and 89 days which accrue interest income, in amount of NIS 166 millions are classified as unimpaired problematic debts (March 31, 2016 - NIS 111 million, December 31, 2016 - NIS 110 million).
- (5) Including housing loans in amount of NIS 12 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (March 31, 2016 - NIS 9 million, December 31, 2016 - NIS 12 million).
- (6) Reclassified due to changes in the data of the bank and a subsidiary company.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

Unaudited					
March 31, 2017					
	Balance <sup>(1)</sup> of impaired debts in respect of which specific allowance exist <sup>(2)</sup>	Balance of specific allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which specific allowance do not exist <sup>(2)</sup>	Total balance <sup>(1)</sup> of Impaired Debts	Contractual principal amount of impaired debts <sup>(3)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	32	12	90	122	2,612
Construction and Real Estate - Real Estate Activity	108	11	150	258	1,244
Financial Services	646	51	-	646	772
Commercial - Other	532	196	634	1,166	4,284
<b>Total Commercial</b>	<b>1,318</b>	<b>270</b>	<b>874</b>	<b>2,192</b>	<b>8,912</b>
Private Individuals - Other Loans	16	4	49	65	437
<b>Total Public - Lending Activity in Israel</b>	<b>1,334</b>	<b>274</b>	<b>923</b>	<b>2,257</b>	<b>9,349</b>
<b>Total Lending Activity in Israel</b>	<b>1,334</b>	<b>274</b>	<b>923</b>	<b>2,257</b>	<b>9,349</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	-	-	83	83	589
Commercial - Other	52	9	248	300	417
<b>Total Commercial</b>	<b>52</b>	<b>9</b>	<b>331</b>	<b>383</b>	<b>1,006</b>
Private Individuals	-	-	-	-	1
<b>Total Public - Lending Activity Outside of Israel</b>	<b>52</b>	<b>9</b>	<b>331</b>	<b>383</b>	<b>1,007</b>
<b>Total Lending Activity Outside of Israel</b>	<b>52</b>	<b>9</b>	<b>331</b>	<b>383</b>	<b>1,007</b>
<b>Total public</b>	<b>1,386</b>	<b>283</b>	<b>1,254</b>	<b>2,640</b>	<b>10,356</b>
<b>Total</b>	<b>1,386</b>	<b>283</b>	<b>1,254</b>	<b>2,640</b>	<b>10,356</b>
Of which:					
Measured according to present value of cash flows	1,014	211	298	1,312	
Debts under troubled debt restructurings	1,023	132	927	1,950	

For footnotes see page 156.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Unaudited				
	March 31, 2016				
	Balance <sup>(1)</sup> of impaired debts in respect of which specific allowance exist <sup>(2)</sup>	Balance of specific allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which specific allowance do not exist <sup>(2)</sup>	Total balance <sup>(1)</sup> of Impaired Debts	Contractual principal amount of impaired debts <sup>(3)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	39	20	84	123	3,260
Construction and Real Estate - Real Estate Activity	88	11	175	263	1,459
Financial Services	104	15	5	109	304
Commercial - Other	1,196	405	594	1,790	5,102
<b>Total Commercial</b>	<b>1,427</b>	<b>451</b>	<b>858</b>	<b>2,285</b>	<b>10,125</b>
Private Individuals - Other Loans	13	2	47	60	439
<b>Total Public - Lending Activity in Israel</b>	<b>1,440</b>	<b>453</b>	<b>905</b>	<b>2,345</b>	<b>10,564</b>
<b>Total Lending Activity in Israel</b>	<b>1,440</b>	<b>453</b>	<b>905</b>	<b>2,345</b>	<b>10,564</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	33	4	215	248	886
Commercial - Other	78	27	133	211	345
<b>Total Commercial</b>	<b>111</b>	<b>31</b>	<b>348</b>	<b>459</b>	<b>1,231</b>
Private Individuals	-	-	-	-	1
<b>Total Public - Lending Activity Outside of Israel</b>	<b>111</b>	<b>31</b>	<b>348</b>	<b>459</b>	<b>1,232</b>
<b>Total Lending Activity Outside of Israel</b>	<b>111</b>	<b>31</b>	<b>348</b>	<b>459</b>	<b>1,232</b>
<b>Total public</b>	<b>1,551</b>	<b>484</b>	<b>1,253</b>	<b>2,804</b>	<b>11,796</b>
<b>Total</b>	<b>1,551</b>	<b>484</b>	<b>1,253</b>	<b>2,804</b>	<b>11,796</b>
Of which:					
Measured according to present value of cash flows	752	316	317	1,069	
Debts under troubled debt restructurings	903	184	740	1,643	

For footnotes see next page.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

##### A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	Audited				
	December 31, 2016				
	Balance <sup>(1)</sup> of impaired debts in respect of which specific allowance exist <sup>(2)</sup>	Balance of specific allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which specific allowance do not exist <sup>(2)</sup>	Total balance <sup>(1)</sup> of Impaired Debts	Contractual principal amount of impaired debts <sup>(3)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	45	20	91	136	3,126
Construction and Real Estate - Real Estate Activity	99	12	166	265	1,208
Financial Services	663	51	3	666	792
Commercial - Other	854	280	463	1,317	4,433
<b>Total Commercial</b>	<b>1,661</b>	<b>363</b>	<b>723</b>	<b>2,384</b>	<b>9,559</b>
Private Individuals - Other Loans	15	3	46	61	431
<b>Total Public - Lending Activity in Israel</b>	<b>1,676</b>	<b>366</b>	<b>769</b>	<b>2,445</b>	<b>9,990</b>
<b>Total Lending Activity in Israel</b>	<b>1,676</b>	<b>366</b>	<b>769</b>	<b>2,445</b>	<b>9,990</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	-	-	128	128	637
Commercial - Other	80	23	290	370	553
<b>Total Commercial</b>	<b>80</b>	<b>23</b>	<b>418</b>	<b>498</b>	<b>1,190</b>
Private Individuals	-	-	-	-	1
<b>Total Public - Lending Activity Outside of Israel</b>	<b>80</b>	<b>23</b>	<b>418</b>	<b>498</b>	<b>1,191</b>
<b>Total Lending Activity Outside of Israel</b>	<b>80</b>	<b>23</b>	<b>418</b>	<b>498</b>	<b>1,191</b>
<b>Total public</b>	<b>1,756</b>	<b>389</b>	<b>1,187</b>	<b>2,943</b>	<b>11,181</b>
<b>Total</b>	<b>1,756</b>	<b>389</b>	<b>1,187</b>	<b>2,943</b>	<b>11,181</b>
Of which:					
Measured according to present value of cash flows	1,077	219	304	1,381	
Debts under troubled debt restructurings	1,384	225	740	2,124	

Footnotes:

(1) Recorded amount.

(2) Specific allowance for credit losses.

(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.



## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### B. AVERAGE BALANCE AND INTEREST INCOME

			Unaudited			
Three months ended March 31						
	2017			2016		
	Average balance of Impaired Debts <sup>(1)</sup>	Recorded Interest Income <sup>(2)</sup>	Of which: recorded on cash basis	Average balance of Impaired Debts <sup>(1)</sup>	Recorded Interest Income <sup>(2)</sup>	Of which: recorded on cash basis
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	131	1	-	127	-	-
Construction and Real Estate - Real Estate Activity	266	1	1	272	1	1
Financial Services	654	5	5	122	-	-
Commercial - Other	1,272	6	4	1,817	11	7
Total Commercial	2,323	13	10	2,338	12	8
Private Individuals - Other Loans	68	-	-	66	-	-
Total Public - Lending Activity in Israel	2,391	13	10	2,404	12	8
Total Lending Activity in Israel	2,391	13	10	2,404	12	8
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	105	-	-	258	2	1
Commercial - Other	290	2	-	232	1	-
Total Commercial	395	2	-	490	3	1
Total Public - Lending Activity Outside of Israel	395	2	-	490	3	1
Total Lending Activity Outside of Israel	395	2	-	490	3	1
Total	2,786	(3) 15	10	2,894	(3) 15	9

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 28 millions and NIS 33 millions for the three months ended March 31, 2017 and March 31, 2016, respectively.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

Unaudited					
March 31, 2017					
Recorded amount					
	Not accruing interest income	Accruing debts <sup>(1)</sup> , in arrears for 90 days or more	Accruing debts <sup>(1)</sup> , in Arrears for 30 to 89 Days	Accruing debts <sup>(1)</sup> not in arrears	Total <sup>(2)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	20	-	-	40	60
Construction and Real Estate - Real Estate Activity	98	-	-	24	122
Financial Services	587	-	-	55	642
Commercial - Other	729	-	1	131	861
<b>Total Commercial</b>	<b>1,434</b>	<b>-</b>	<b>1</b>	<b>250</b>	<b>1,685</b>
Private Individuals - Other Loans	23	-	2	20	45
<b>Total Public - Lending Activity in Israel</b>	<b>1,457</b>	<b>-</b>	<b>3</b>	<b>270</b>	<b>1,730</b>
<b>Total Lending Activity in Israel</b>	<b>1,457</b>	<b>-</b>	<b>3</b>	<b>270</b>	<b>1,730</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	20	-	-	-	20
Commercial - Other	25	-	-	175	200
<b>Total Commercial</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>220</b>
<b>Total Public - Lending Activity Outside of Israel</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>220</b>
<b>Total Lending Activity Outside of Israel</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>220</b>
<b>Total</b>	<b>1,502</b>	<b>-</b>	<b>3</b>	<b>445</b>	<b>1,950</b>

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at March 31, 2017, to NIS 29 million (March 31, 2016 - NIS 38 million; December 31, 2016 – NIS 41 million).

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

Unaudited					
March 31, 2016					
Recorded amount					
	Not accruing interest income	Accruing debts <sup>(1)</sup> , in arrears for 90 days or more	Accruing debts <sup>(1)</sup> , in Arrears for 30 to 89 Days	Accruing debts <sup>(1)</sup> not in arrears	Total <sup>(2)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	30	-	-	8	38
Construction and Real Estate - Real Estate Activity	82	-	-	40	122
Financial Services	102	-	-	1	103
Commercial - Other	949	-	4	297	1,250
<b>Total Commercial</b>	<b>1,163</b>	<b>-</b>	<b>4</b>	<b>346</b>	<b>1,513</b>
Private Individuals - Other Loans	19	-	-	29	48
<b>Total Public - Lending Activity in Israel</b>	<b>1,182</b>	<b>-</b>	<b>4</b>	<b>375</b>	<b>1,561</b>
<b>Total Lending Activity in Israel</b>	<b>1,182</b>	<b>-</b>	<b>4</b>	<b>375</b>	<b>1,561</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	23	-	-	1	24
Commercial - Other	7	-	-	51	58
<b>Total Commercial</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>82</b>
<b>Total Public - Lending Activity Outside of Israel</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>82</b>
<b>Total Lending Activity Outside of Israel</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>82</b>
<b>Total</b>	<b>1,212</b>	<b>-</b>	<b>4</b>	<b>427</b>	<b>1,643</b>

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

Audited					
December 31, 2016					
Recorded amount					
	Not accruing interest income	Accruing debts <sup>(1)</sup> , in arrears for 90 days or more	Accruing debts <sup>(1)</sup> , in Arrears for 30 to 89 Days	Accruing debts <sup>(1)</sup> not in arrears	Total <sup>(2)</sup>
In NIS millions					
<b>Lending Activity in Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate - Construction	18	-	-	41	59
Construction and Real Estate - Real Estate Activity	101	-	2	26	129
Financial Services	598	-	-	63	661
Commercial - Other	814	-	1	182	997
<b>Total Commercial</b>	<b>1,531</b>	<b>-</b>	<b>3</b>	<b>312</b>	<b>1,846</b>
Private Individuals - Other Loans	21	-	1	26	48
<b>Total Public - Lending Activity in Israel</b>	<b>1,552</b>	<b>-</b>	<b>4</b>	<b>338</b>	<b>1,894</b>
<b>Total Lending Activity in Israel</b>	<b>1,552</b>	<b>-</b>	<b>4</b>	<b>338</b>	<b>1,894</b>
<b>Lending Activity Outside of Israel</b>					
<b>Public - Commercial</b>					
Construction and Real Estate	21	-	-	-	21
Commercial - Other	2	-	15	192	209
<b>Total Commercial</b>	<b>23</b>	<b>-</b>	<b>15</b>	<b>192</b>	<b>230</b>
<b>Total Public - Lending Activity Outside of Israel</b>	<b>23</b>	<b>-</b>	<b>15</b>	<b>192</b>	<b>230</b>
<b>Total Lending Activity Outside of Israel</b>	<b>23</b>	<b>-</b>	<b>15</b>	<b>192</b>	<b>230</b>
<b>Total</b>	<b>1,575</b>	<b>-</b>	<b>19</b>	<b>530</b>	<b>2,124</b>

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

Unaudited						
Three months ended March 31						
2017				2016		
Debt restructuring performed						
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	33	6	6	32	3	3
Construction and Real Estate - Real Estate Activity	2	1	1	2	2	2
Commercial - Other	106	16	16	99	11	11
Total Commercial	141	23	23	133	16	16
Private Individuals - Other Loans	755	13	12	612	9	8
Total Public - Lending Activity in Israel	896	36	35	745	25	24
Total Lending Activity in Israel	896	36	35	745	25	24
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	-	-	-	1	1	1
Total Commercial	-	-	-	1	1	1
Total Public - Lending Activity Outside of Israel	-	-	-	1	1	1
Total Lending Activity Outside of Israel	-	-	-	1	1	1
Total	896	36	35	746	26	25

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

#### C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Three months ended March 31			
	2017		2016	
	Failure of restructured debts <sup>(1)</sup>			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
In NIS millions				
<b>Lending Activity in Israel</b>				
<b>Public - Commercial</b>				
Construction and Real Estate - Construction	5	(2)_	4	(2)_
Construction and Real Estate - Real Estate Activity	1	1	1	(2)_
Commercial - Other	26	1	27	41
<b>Total Commercial</b>	<b>32</b>	<b>2</b>	<b>32</b>	<b>41</b>
Private Individuals - Other	401	4	337	3
<b>Total Public - Activity in Israel</b>	<b>433</b>	<b>6</b>	<b>369</b>	<b>44</b>
<b>Total Activity in Israel</b>	<b>433</b>	<b>6</b>	<b>369</b>	<b>44</b>
<b>Lending Activity Outside of Israel</b>				
<b>Public - Commercial</b>				
Commercial - Other	1	25	-	-
<b>Total Commercial</b>	<b>1</b>	<b>25</b>	<b>-</b>	<b>-</b>
<b>Total Public - Activity Outside of Israel</b>	<b>1</b>	<b>25</b>	<b>-</b>	<b>-</b>
<b>Total Activity Outside of Israel</b>	<b>1</b>	<b>25</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>434</b>	<b>31</b>	<b>369</b>	<b>44</b>

Footnotes:

(1) Debts, which in the reported period turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrear.

(2) An amount lower than NIS 1 million.

#### 3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT

##### (A) Risk characteristics according to credit segments

###### (1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent years, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT (CONTINUED)

- (2) Credit to private individuals – housing loans
- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.
- (3) Credit to private individuals – other
- Exposure to retail credit is affected by macro-economic factors.
  - Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

#### (B) Indication of credit quality

	Unaudited				Audited			
	March 31, 2017				December 31, 2016			
	Private Individuals				Private Individuals			
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	95.7%	98.8%	98.4%	96.8%	95.2%	98.8%	98.4%	96.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	1.5%	1.2%	1.4%	1.4%	1.6%	1.2%	1.4%	1.5%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	2.8%	-	0.2%	1.8%	3.2%	-	0.2%	2.1%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.6%	0.6%	1.6%	1.4%	1.7%	0.7%	1.6%	1.5%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	33.8%	54.5%	99.6%	40.8%	32.4%	51.2%	98.9%	38.8%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### B. DEBTS (CONTINUED)

#### 4. ADDITIONAL INFORMATION REGARDING HOUSING LOANS

Balances for the year end, according to Loan-to-Value (LTV)<sup>(1)</sup> ratio, manner of repayment and type of interest:

			Balance of housing loans		
			Of which:	Of which:	Total Off-
			Bullet and	variable	Balance Sheet
Total			Balloon debts	interest	Credit Risk
In NIS millions					
Unaudited					
March 31, 2017					
First degree pledge: financing ratio	Up to 60%	17,004	345	10,229	190
	Over 60%	8,832	60	5,601	44
Second degree pledge or without pledge		711	25	278	1,853
<b>Total</b>		<sup>(2)</sup> <b>26,547</b>	<b>430</b>	<b>16,108</b>	<b>2,087</b>
Unaudited					
March 31, 2016					
First degree pledge: financing ratio	Up to 60%	14,165	285	8,739	146
	Over 60%	7,536	57	4,921	74
Second degree pledge or without pledge		781	23	402	1,856
<b>Total</b>		<sup>(2)</sup> <b>22,482</b>	<b>365</b>	<b>14,062</b>	<b>2,076</b>
Audited					
December 31, 2016					
First degree pledge: financing ratio	Up to 60%	16,298	307	9,882	148
	Over 60%	8,683	66	5,512	46
Second degree pledge or without pledge		783	22	368	1,803
<b>Total</b>		<sup>(2)</sup> <b>25,764</b>	<b>395</b>	<b>15,762</b>	<b>1,997</b>

Footnotes:

- (1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.
- (2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 258 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 (March 31, 2016 - NIS 248 million, December 31, 2016 - NIS 266 million).

### C. INFORMATION REGARDING THE PURCHASE AND SALE OF DEBTS

#### DETAILS REGARDING THE CONSIDERATION PAID OR RECEIVED FOR THE PURCHASE OR SALE OF LOANS

Unaudited									
For the three months ended March 31, 2017					For the three months ended March 31, 2016				
Credit to the public					Credit to the public				
Commercial	Housing	Other	Credit to banks and governments	Total	Commercial	Housing	Other	Credit to banks and governments	Total
In NIS millions									
Loans acquired	495	-	-	-	495	278	-	-	4
Loans sold	45	-	-	-	45	160	-	-	-

For details regarding profit (loss) net in respect of loans sold, see Note 3.



## 14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

### D. OFF BALANCE SHEET FINANCIAL INSTRUMENTS<sup>(3)</sup>

	Unaudited		Unaudited		Audited	
	Balance <sup>(1)</sup>	Provision <sup>(2)</sup>	Balance <sup>(1)</sup>	Provision <sup>(2)</sup>	Balance <sup>(1)</sup>	Provision <sup>(2)</sup>
	March 31,2017		March 31,2016		December 31,2016	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	1,068	5	1,608	8	1,195	4
Credit guarantees	2,448	22	2,109	28	2,544	23
Guarantees for home purchasers	6,766	2	6,207	3	6,861	2
Other guarantees and obligations	6,109	53	5,490	32	6,240	55
Unutilized facilities for transactions in derivative instruments	1,109	-	1,054	-	954	-
Unutilized facilities credit line for credit cards	21,987	25	20,348	24	21,922	25
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,884	25	8,542	26	8,986	27
Irrevocable commitments to extend credit approved but not yet granted <sup>(3)</sup>	22,581	51	21,723	55	22,470	54
Commitment to issue guarantees	5,135	4	4,050	5	4,446	5

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS – CONSOLIDATED

Unaudited							
March 31, 2017							
	Israeli currency		Foreign currency <sup>(1)</sup>			Non monetary items	Total
	Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies		
in NIS millions							
<b>Assets</b>							
Cash and deposits with banks	24,345	50	3,901	264	619	-	29,179
Securities	16,414	4,139	13,936	728	20	950	36,187
Securities borrowed or purchased under resale agreements	369	-	-	-	-	-	369
Credit to the public, net	100,117	15,627	25,653	1,619	443	-	143,459
Credit to the Government	222	207	169	197	-	-	795
Investments in affiliated companies	-	2	-	-	-	145	147
Buildings and equipment	-	-	-	-	-	2,271	2,271
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,827	88	561	104	92	362	3,034
Other assets	1,673	25	905	43	344	458	3,448
Assets held for sale	-	-	-	-	-	47	47
<b>Total assets</b>	<b>144,967</b>	<b>20,138</b>	<b>45,125</b>	<b>2,955</b>	<b>1,518</b>	<b>4,393</b>	<b>219,096</b>
<b>Liabilities</b>							
Deposits from the public	111,196	5,203	46,579	6,370	2,294	-	171,642
Deposits from banks	3,440	4	1,635	97	8	-	5,184
Deposits from the Government	149	46	107	-	-	-	302
Securities loaned or sold under repurchase agreements	-	-	3,340	-	-	-	3,340
Subordinated debt notes	2,667	5,896	-	85	-	-	8,648
Liabilities in respect of derivative instruments	2,326	159	575	127	88	364	3,639
Other liabilities	10,121	163	441	20	43	368	11,156
Liabilities held for sale	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>129,899</b>	<b>11,471</b>	<b>52,677</b>	<b>6,699</b>	<b>2,433</b>	<b>732</b>	<b>203,911</b>
Difference	15,068	8,667	(7,552)	(3,744)	(915)	3,661	15,185
<b>Effect of non-hedging derivative instruments:</b>							
Derivative instruments (except for options)	(12,305)	(3,557)	11,180	3,820	862	-	-
Options in the money, net (in terms of underlying asset)	197	-	(257)	57	3	-	-
Options out of the money, net (in terms of underlying asset)	65	-	54	(92)	(27)	-	-
<b>Total</b>	<b>3,025</b>	<b>5,110</b>	<b>3,425</b>	<b>41</b>	<b>(77)</b>	<b>3,661</b>	<b>15,185</b>
Options in the money, net (discounted par value)	68	-	(226)	151	7	-	-
Options out of the money, net (discounted par value)	(134)	-	424	(210)	(80)	-	-

Footnote:

(1) Includes those linked to foreign currency.

## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS – CONSOLIDATED (CONTINUED)

Unaudited							
March 31, 2016							
	Israeli currency		Foreign currency <sup>(1)</sup>			Non monetary items	Total
	Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies		
in NIS millions							
<b>Assets</b>							
Cash and deposits with banks	23,518	60	4,212	627	793	-	29,210
Securities	16,796	4,472	15,247	662	6	881	38,064
Securities borrowed or purchased under resale agreements	183	-	-	-	-	-	183
Credit to the public, net	86,061	14,867	25,975	1,757	543	-	129,203
Credit to the Government	208	198	14	104	-	-	524
Investments in affiliated companies	-	2	-	-	-	139	141
Buildings and equipment	-	-	-	-	-	2,180	2,180
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,234	77	665	456	175	154	3,761
Other assets	2,053	16	1,124	10	324	249	3,776
Assets held for sale	-	-	-	-	-	16	16
<b>Total assets</b>	<b>131,053</b>	<b>19,692</b>	<b>47,237</b>	<b>3,616</b>	<b>1,841</b>	<b>3,761</b>	<b>207,200</b>
<b>Liabilities</b>							
Deposits from the public	99,669	6,117	<sup>(2)</sup> 45,969	7,226	2,652	-	161,633
Deposits from banks	2,374	5	1,393	51	19	-	3,842
Deposits from the Government	145	66	<sup>(2)</sup> 114	-	-	-	325
Securities loaned or sold under repurchase agreements	-	-	3,698	-	-	-	3,698
Subordinated debt notes	2,078	6,596	-	65	-	-	8,739
Liabilities in respect of derivative instruments	2,871	138	777	422	168	159	4,535
Other liabilities	9,825	161	467	50	75	176	10,754
Liabilities held for sale	-	-	19	26	2	-	47
<b>Total liabilities</b>	<b>116,962</b>	<b>13,083</b>	<b>52,437</b>	<b>7,840</b>	<b>2,916</b>	<b>335</b>	<b>193,573</b>
Difference	14,091	6,609	(5,200)	(4,224)	(1,075)	3,426	13,627
<b>Effect of non-hedging derivative instruments:</b>							
Derivative instruments (except for options)	(11,988)	(1,569)	8,616	4,073	868	-	-
Options in the money, net (in terms of underlying asset)	(148)	-	176	(36)	8	-	-
Options out of the money, net (in terms of underlying asset)	34	-	(157)	98	25	-	-
<b>Total</b>	<b>1,989</b>	<b>5,040</b>	<b>3,435</b>	<b>(89)</b>	<b>(174)</b>	<b>3,426</b>	<b>13,627</b>
Options in the money, net (discounted par value)	(313)	-	284	4	25	-	-
Options out of the money, net (discounted par value)	(303)	-	(294)	395	202	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified - see Note 1 G (2).

## 15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS – CONSOLIDATED (CONTINUED)

Audited							
December 31, 2016							
December 31, 2016							
	Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies	Non monetary items	Total
in NIS millions							
<b>Assets</b>							
Cash and deposits with banks	23,739	51	4,181	611	729	-	29,311
Securities	16,705	4,607	15,972	538	20	976	38,818
Securities borrowed or purchased under resale agreements	440	-	-	-	-	-	440
Credit to the public, net	96,200	15,243	27,050	1,752	515	-	140,760
Credit to the Government	224	206	102	205	-	-	737
Investments in affiliated companies	-	2	-	-	-	155	157
Buildings and equipment	-	-	-	-	-	2,295	2,295
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,499	79	1,254	70	33	348	3,283
Other assets	1,766	23	948	31	360	461	3,589
Assets held for sale	-	-	-	-	-	27	27
<b>Total assets</b>	<b>140,573</b>	<b>20,211</b>	<b>49,507</b>	<b>3,207</b>	<b>1,657</b>	<b>4,422</b>	<b>219,577</b>
<b>Liabilities</b>							
Deposits from the public	108,345	5,360	49,396	6,770	2,447	-	172,318
Deposits from banks	3,303	5	1,908	117	9	-	5,342
Deposits from the Government	133	57	113	-	-	-	303
Securities loaned or sold under repurchase agreements	-	-	3,543	-	-	-	3,543
Subordinated debt notes	2,052	6,356	-	90	-	-	8,498
Liabilities in respect of derivative instruments	1,608	152	1,284	145	28	353	3,570
Other liabilities	9,913	186	466	26	41	435	11,067
Liabilities held for sale	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>125,354</b>	<b>12,116</b>	<b>56,710</b>	<b>7,148</b>	<b>2,525</b>	<b>788</b>	<b>204,641</b>
Difference	15,219	8,095	(7,203)	(3,941)	(868)	3,634	14,936
<b>Effect of non-hedging derivative instruments:</b>							
Derivative instruments (except for options)	(12,291)	(3,076)	10,749	3,919	699	-	-
Options in the money, net (in terms of underlying asset)	160	-	(189)	1	28	-	-
Options out of the money, net (in terms of underlying asset)	(91)	-	45	33	13	-	-
<b>Total</b>	<b>2,997</b>	<b>5,019</b>	<b>3,402</b>	<b>12</b>	<b>(128)</b>	<b>3,634</b>	<b>14,936</b>
Options in the money, net (discounted par value)	225	-	(232)	(43)	50	-	-
Options out of the money, net (discounted par value)	(466)	-	152	288	26	-	-

Footnotes:

(1) Includes those linked to foreign currency.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

### A. COMPOSITION - CONSOLIDATED

	Unaudited				
	March 31, 2017				
	Book value	Fair value			Total
		Level 1 <sup>(1)</sup>	Level 2 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	
in NIS millions					
<b>Financial assets</b>					
Cash and deposits with banks	29,179	9,402	-	19,800	29,202
Securities <sup>(2)</sup>	36,187	20,666	14,937	865	36,468
Securities borrowed or purchased under resale agreements	369	-	-	369	369
Credit to the public, net	143,459	3,474	2	139,645	143,121
Credit to Governments	795	-	-	833	833
Assets in respect of derivative instruments	3,034	394	1,682	958	3,034
Other financial assets	1,582	225	24	1,333	1,582
<b>Total financial assets</b>	<b>(3)214,605</b>	<b>34,161</b>	<b>16,645</b>	<b>163,803</b>	<b>214,609</b>
<b>Financial liabilities</b>					
Deposits from the public	171,642	18,957	114,605	38,303	171,865
Deposits from banks	5,184	-	4,134	1,063	5,197
Deposits from the Government	302	-	198	113	311
Securities loaned or sold under repurchase agreements	3,340	-	-	3,474	3,474
Bonds and Subordinated debt notes	8,648	7,458	277	1,905	9,640
Liabilities in respect of derivative instruments	3,639	394	2,921	324	3,639
Other financial liabilities	8,081	489	28	7,564	8,081
<b>Total financial liabilities</b>	<b>(3)200,836</b>	<b>27,298</b>	<b>122,163</b>	<b>52,746</b>	<b>202,207</b>
<b>Off-balance sheet financial instruments</b>					
Transactions in which the balance represents credit risk	86	-	-	86	86

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 48,287 million and NIS 87,119 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see the following Notes B and C.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### A. COMPOSITION - CONSOLIDATED (CONTINUED)

Unaudited					
March 31, 2016					
	Book	Fair value			
	value	Level 1 <sup>(1)</sup>	Level 2 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	Total
in NIS millions					
Financial assets					
Cash and deposits with banks	29,210	9,439	-	19,787	29,226
Securities <sup>(2)</sup>	38,064	21,691	16,016	798	38,505
Securities borrowed or purchased under resale agreements	183	-	-	183	183
Credit to the public, net	129,203	2,050	2	127,296	129,348
Credit to Governments	524	-	-	585	585
Assets in respect of derivative instruments	3,761	185	2,407	1,169	3,761
Other financial assets	1,931	48	25	1,858	1,931
Financial assets held for sale	-	-	-	-	-
<b>Total financial assets</b>	<b><sup>(3)</sup>202,876</b>	<b>33,413</b>	<b>18,450</b>	<b>151,676</b>	<b>203,539</b>
Financial liabilities					
Deposits from the public	<sup>(4)</sup> 161,633	18,753	<sup>(4)</sup> 111,488	31,792	162,033
Deposits from banks	3,842	2	3,710	138	3,850
Deposits from the Government	<sup>(4)</sup> 325	-	<sup>(4)</sup> 220	117	337
Securities loaned or sold under repurchase agreements	3,698	-	-	3,981	3,981
Subordinated debt notes	8,739	7,668	310	2,014	9,992
Liabilities in respect of derivative instruments	4,535	185	4,033	317	4,535
Other financial liabilities	7,329	59	27	7,243	7,329
Financial liabilities held for sale	47	-	47	-	47
<b>Total financial liabilities</b>	<b><sup>(3)</sup>190,148</b>	<b>26,667</b>	<b>119,835</b>	<b>45,602</b>	<b>192,104</b>
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	72	-	-	72	72

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 49,392 million and NIS 83,240 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes B and C.
- (4) Reclassified - see Note 1 G (2).

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### A. COMPOSITION - CONSOLIDATED (CONTINUED)

Audited					
December 31, 2016					
	Book value	Fair value			Total
		Level 1 <sup>(1)</sup>	Level 2 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	
in NIS millions					
<b>Financial assets</b>					
Cash and deposits with banks	29,311	8,886	-	20,448	29,334
Securities <sup>(2)</sup>	38,818	21,706	16,551	853	39,110
Securities borrowed or purchased under resale agreements	440	-	-	440	440
Credit to the public, net	140,760	3,336	1	136,790	140,127
Credit to Governments	737	-	-	799	799
Assets in respect of derivative instruments	3,283	365	2,075	843	3,283
Other financial assets	1,803	298	21	1,484	1,803
<b>Total financial assets</b>	<b>(3)215,152</b>	<b>34,591</b>	<b>18,648</b>	<b>161,657</b>	<b>214,896</b>
<b>Financial liabilities</b>					
Deposits from the public	172,318	19,173	116,222	37,120	172,515
Deposits from banks	5,342	-	4,166	1,182	5,348
Deposits from the Government	303	-	123	189	312
Securities loaned or sold under repurchase agreements	3,543	-	-	3,712	3,712
Subordinated capital notes	8,498	7,271	265	1,958	9,494
Liabilities in respect of derivative instruments	3,570	365	2,910	295	3,570
Other financial liabilities	7,963	583	28	7,352	7,963
<b>Total financial liabilities</b>	<b>(3)201,537</b>	<b>27,392</b>	<b>123,714</b>	<b>51,808</b>	<b>202,914</b>
<b>Off-balance sheet financial instruments</b>					
Transactions in which the balance represents credit risk	83	-	-	83	83

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.
- (3) Of which: assets and liabilities in the amount of NIS 50,627 million and NIS 87,991 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see the following Notes B and C.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### B. ITEMS MEASURED AT FAIR VALUE – CONSOLIDATED

#### 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Unaudited March 31, 2017						
Fair value measurements using -						
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
In NIS millions						
<b>Assets</b>						
<b>Available for sale securities</b>						
Of the Israeli Government	14,540	1,742	-	-	16,282	16,282
Of foreign governments	-	711	-	-	711	711
Of Israeli financial institutions	10	47	-	-	57	57
Of foreign financial institutions	-	989	-	-	989	989
Mortgage-backed-securities or Assets -backed-securities	-	7,207	-	-	7,207	7,207
Of others in Israel	198	182	-	-	380	380
Of others abroad	-	1,151	-	-	1,151	1,151
Shares	76	-	-	-	76	76
<b>Total available-for-sale securities</b>	<b>14,824</b>	<b>12,029</b>	<b>-</b>	<b>-</b>	<b>26,853</b>	<b>26,853</b>
<b>Trading Securities</b>						
Of the Israeli Government	1,922	469	-	-	2,391	2,391
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	25	-	-	-	25	25
Of foreign financial institutions	-	36	-	-	36	36
Mortgage-backed-securities or Assets -backed-securities	-	53	-	-	53	53
Of others in Israel	32	4	-	-	36	36
Of others abroad	-	21	-	-	21	21
Shares	9	-	-	-	9	9
<b>Total trading securities</b>	<b>1,988</b>	<b>583</b>	<b>-</b>	<b>-</b>	<b>2,571</b>	<b>2,571</b>
<b>Credit to the public in respect of securities loaned</b>	<b>3,474</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>3,476</b>	<b>3,476</b>
<b>Assets in respect of derivative instruments</b>						
Shekel/CPI Interest Rate Contracts	-	1	174	-	175	175
Other Interest Rate Contracts	-	1,261	228	-	1,489	1,489
Foreign Exchange Contracts	29	393	556	-	978	978
Shares Contracts	365	27	-	-	392	392
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	394	1,682	958	-	3,034	3,034
<b>Other</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>24</b>	<b>24</b>
<b>Assets in respect of the "Maof" market operations</b>	<b>225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>225</b>	<b>225</b>
<b>Total assets</b>	<b>20,905</b>	<b>14,320</b>	<b>958</b>	<b>-</b>	<b>36,183</b>	<b>36,183</b>
<b>Liabilities</b>						
<b>Deposits from the public in respect of securities borrowed</b>						
CLN deposits	-	-	309	-	309	309
<b>Liabilities in respect of derivative instruments</b>						
Shekel/CPI Interest Rate Contracts	-	1	177	-	178	178
Other Interest Rate Contracts	-	1,641	-	-	1,641	1,641
Foreign Exchange Contracts	29	1,279	147	-	1,455	1,455
Shares Contracts	365	-	-	-	365	365
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	394	2,921	324	-	3,639	3,639
<b>Other</b>	<b>-</b>	<b>28</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>28</b>
<b>Commitments in respect of the "Maof" market operations</b>	<b>225</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>225</b>	<b>225</b>
<b>Short sales of securities</b>	<b>264</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>264</b>	<b>264</b>
<b>Total liabilities</b>	<b>2,519</b>	<b>2,968</b>	<b>633</b>	<b>-</b>	<b>6,120</b>	<b>6,120</b>



## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

#### 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

Unaudited						
March 31, 2016						
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
In NIS millions						
<b>Assets</b>						
<b>Available for sale securities</b>						
Of the Israeli Government	13,660	1,400	-	-	15,060	15,060
Of foreign governments	197	624	-	-	821	821
Of Israeli financial institutions	140	46	-	-	186	186
Of foreign financial institutions	-	1,517	-	-	1,517	1,517
Mortgage-backed-securities or Assets -backed-securities <sup>o</sup>	-	7,387	-	-	7,387	7,387
Of others in Israel	200	225	-	-	425	425
Of others abroad	-	1,461	-	-	1,461	1,461
Shares	76	-	-	-	76	76
<b>Total available-for-sale securities</b>	<b>14,273</b>	<b>12,660</b>	<b>-</b>	<b>-</b>	<b>26,933</b>	<b>26,933</b>
<b>Trading Securities</b>						
Of the Israeli Government	3,163	213	-	-	3,376	3,376
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	-	-	-	-	-	-
Of foreign financial institutions	-	5	-	-	5	5
Mortgage-backed-securities or Assets -backed-securities <sup>o</sup>	-	58	-	-	58	58
Of others in Israel	14	8	-	-	22	22
Of others abroad	-	28	-	-	28	28
Shares	6	1	-	-	7	7
<b>Total trading securities</b>	<b>3,183</b>	<b>313</b>	<b>-</b>	<b>-</b>	<b>3,496</b>	<b>3,496</b>
<b>Credit to the public in respect of securities loaned</b>	<b>2,050</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2,052</b>	<b>2,052</b>
<b>Assets in respect of derivative instruments</b>						
Shekel/CPI Interest Rate Contracts	-	-	199	-	199	199
Other Interest Rate Contracts	-	1,815	257	-	2,072	2,072
Foreign Exchange Contracts	26	567	713	-	1,306	1,306
Shares Contracts	159	25	-	-	184	184
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	185	2,407	1,169	-	3,761	3,761
<b>Other</b>	-	25	-	-	25	25
<b>Assets in respect of the "Maof" market operations</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48</b>	<b>48</b>
<b>Total assets</b>	<b>19,739</b>	<b>15,407</b>	<b>1,169</b>	<b>-</b>	<b>36,315</b>	<b>36,315</b>
<b>Liabilities</b>						
<b>Deposits from the public in respect of securities borrowed</b>						
<b>CLN deposits</b>	<b>-</b>	<b>-</b>	<b>339</b>	<b>-</b>	<b>339</b>	<b>339</b>
<b>Liabilities in respect of derivative instruments</b>						
Shekel/CPI Interest Rate Contracts	-	-	180	-	180	180
Other Interest Rate Contracts	-	2,516	-	-	2,516	2,516
Foreign Exchange Contracts	26	1,517	137	-	1,680	1,680
Shares Contracts	159	-	-	-	159	159
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	185	4,033	317	-	4,535	4,535
<b>Other</b>	-	27	-	-	27	27
<b>Commitments in respect of the "Maof" market operations</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48</b>	<b>48</b>
<b>Short sales of securities</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>11</b>
<b>Total liabilities</b>	<b>1,333</b>	<b>4,081</b>	<b>656</b>	<b>-</b>	<b>6,070</b>	<b>6,070</b>

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

#### 1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)			Audited			
December 31, 2016						
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
In NIS millions						
Assets						
Available for sale securities						
Of the Israeli Government	14,671	1,893	-	-	16,564	16,564
Of foreign governments	197	721	-	-	918	918
Of Israeli financial institutions	10	48	-	-	58	58
Of foreign financial institutions	-	1,154	-	-	1,154	1,154
Mortgage-backed-securities or Assets -backed-securities <sup>o</sup>	-	7,683	-	-	7,683	7,683
Of others in Israel	200	153	-	-	353	353
Of others abroad	-	2,023	-	-	2,023	2,023
Shares	110	-	-	-	110	110
<b>Total available-for-sale securities</b>	<b>15,188</b>	<b>13,675</b>	<b>-</b>	<b>-</b>	<b>28,863</b>	<b>28,863</b>
Trading Securities						
Of the Israeli Government	2,424	144	-	-	2,568	2,568
Of foreign governments	-	21	-	-	21	21
Of Israeli financial institutions	14	-	-	-	14	14
Of foreign financial institutions	-	39	-	-	39	39
Mortgage-backed-securities or Assets -backed-securities <sup>o</sup>	-	61	-	-	61	61
Of others in Israel	46	8	-	-	54	54
Of others abroad	-	65	-	-	65	65
Shares	13	-	-	-	13	13
<b>Total trading securities</b>	<b>2,497</b>	<b>338</b>	<b>-</b>	<b>-</b>	<b>2,835</b>	<b>2,835</b>
<b>Credit to the public in respect of securities loaned</b>	<b>3,336</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>3,337</b>	<b>3,337</b>
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	178	-	178	178
Other Interest Rate Contracts	-	1,359	247	-	1,606	1,606
Foreign Exchange Contracts	12	689	418	-	1,119	1,119
Shares Contracts	353	27	-	-	380	380
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	365	2,075	843	-	3,283	3,283
Other	-	21	-	-	21	21
<b>Assets in respect of the "Maof" market operations</b>	<b>298</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>298</b>	<b>298</b>
<b>Total assets</b>	<b>21,684</b>	<b>16,110</b>	<b>843</b>	<b>-</b>	<b>38,637</b>	<b>38,637</b>
Liabilities						
<b>Deposits from the public in respect of securities borrowed</b>	<b>1,185</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>1,205</b>	<b>1,205</b>
CLN deposits	-	-	319	-	319	319
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	160	-	160	160
Other Interest Rate Contracts	-	1,788	-	-	1,788	1,788
Foreign Exchange Contracts	12	1,122	135	-	1,269	1,269
Shares Contracts	353	-	-	-	353	353
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	365	2,910	295	-	3,570	3,570
Other	-	28	-	-	28	28
<b>Commitments in respect of the "Maof" market operations</b>	<b>298</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>298</b>	<b>298</b>
<b>Short sales of securities</b>	<b>285</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>285</b>	<b>285</b>
<b>Total liabilities</b>	<b>2,133</b>	<b>2,958</b>	<b>614</b>	<b>-</b>	<b>5,705</b>	<b>5,705</b>

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

#### 2. ITEMS MEASURED ACCORDING TO FAIR VALUE NOT ON A RECURRING BASIS

Unaudited					Profit (Loss) for the three months ended March 31, 2017
March 31, 2017					
	Level 1	Level 2	Level 3	Total fair value	
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,328	1,328	(20)
Other	-	-	16	16	-
Unaudited					
March 31, 2016					
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended March 31, 2016
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,735	1,735	(82)
Other	-	-	16	16	-
Audited					
December 31, 2016					
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2016
In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,562	1,562	(211)
Other	-	-	16	16	

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED

#### 1. FOR A PERIOD OF THREE MONTHS ENDED MARCH 31, 2017

Unaudited									
	Fair value as at December 31, 2016	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at March 31, 2017	Unrealized gains (losses) in respect of held instruments as at March 31, 2017
in NIS millions									
<b>Net Assets (Liabilities) in respect of derivative instruments</b>									
Shekel/CPI Interest Rate Contracts	18	<sup>(1)</sup> 5	-	-	(26)	-	-	(3)	<sup>(1)</sup> 6
Other Interest Rate Contracts	247	<sup>(1)</sup> (5)	-	-	-	(17)	3	228	<sup>(1)</sup> (5)
Foreign Exchange Contracts	283	<sup>(1)</sup> 294	-	(66)	(52)	(60)	10	409	<sup>(1)</sup> 285
<b>Total</b>	<b>548</b>	<b>294</b>	<b>-</b>	<b>(66)</b>	<b>(78)</b>	<b>(77)</b>	<b>13</b>	<b>634</b>	<b>286</b>
<b>Liabilities</b>									
CLN Deposits	(319)	(2)	-	-	12	-	-	(309)	(2)

#### 2. FOR A PERIOD OF THREE MONTHS ENDED MARCH 31, 2016

Unaudited									
	Fair value as at December 31, 2015	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at March 31, 2016	Unrealized gains (losses) in respect of held instruments as at March 31, 2016
in NIS millions									
<b>Net Assets (Liabilities) in respect of derivative instruments</b>									
Shekel/CPI Interest Rate Contracts	19	<sup>(1)</sup> 17	-	-	(17)	-	-	19	<sup>(1)</sup> 21
Other Interest Rate Contracts	154	<sup>(1)</sup> 148	-	-	(28)	(7)	(10)	257	<sup>(1)</sup> 148
Foreign Exchange Contracts	230	<sup>(1)</sup> 572	-	(63)	(137)	(23)	(3)	576	<sup>(1)</sup> 573
<b>Total</b>	<b>403</b>	<b>737</b>	<b>-</b>	<b>(63)</b>	<b>(182)</b>	<b>(30)</b>	<b>(13)</b>	<b>852</b>	<b>742</b>
<b>Liabilities</b>									
CLN Deposits	(345)	(3)	-	-	9	-	-	(339)	(2)

Footnotes:

(1) Included in the statement of income in the item "Non-interest financing income".

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED (CONTINUED)

#### 3. FOR THE YEAR ENDED DECEMBER 31, 2016

Audited									
	Fair value as at December 31, 2015	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2016	Unrealized gains (losses) in respect of held instruments as at December 31, 2016
in NIS millions									
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	19	(1)2	-	-	(3)	-	-	18	(1)12
Other Interest Rate Contracts	154	(1)154	-	-	(50)	(13)	2	247	(1)155
Foreign Exchange Contracts	230	(1)320	-	(99)	(172)	4	(2)-	283	(1)229
Total	403	476	-	(99)	(225)	(9)	2	548	396
Liabilities									
CLN Deposits	(345)	(14)	(29)	-	69	-	-	(319)	(14)

Footnotes:

(1) Included in the statement of profit and loss in the item "Non-interest financing income"

(2) An amount lower than NIS 1 million

### D. TRANSFERS BETWEEN HIERARCHY LEVELS OF FAIR VALUE

Immaterial transfers to or from level 3 were made in the first quarter of 2017, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### E. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3

#### 1. QUANTITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

Unaudited				
	Fair value as at March 31, 2017	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
<b>A. Items measured at fair value not on a recurring basis</b>				
Impaired credit the collection of which is collateral dependent	1,328	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	Valuation by an expert assessor	Company value, real estate market inputs	
<b>B. Items measured at fair value on a recurring basis</b>				
<b>Net Assets (Liabilities) in respect of derivative instruments</b>				
Shekel/CPI Interest Rate Contracts	(3)	Discounted cash flow	The interest curve in the CPI linked segments	From -1.53% to 0.83% (-0.19%)
			Counterparty credit risk (CVA)	From 0.00% to 2.88% (0.51%)
Other Interest Rate Contracts	228	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 3.27% (0.08%)
Foreign Exchange Contracts	409	Discounted cash flow	The interest curve in the CPI linked segments	From -1.40% to 0.29% (-0.37%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 18.21% (0.17%)
<b>Liabilities</b>				
CLN Deposits	309	Discounted cash flow	Credit risk of the underlying asset	
Unaudited				
	Fair value as at March 31, 2016	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
<b>A. Items measured at fair value not on a recurring basis</b>				
Impaired credit the collection of which is collateral dependent	1,735	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	Valuation by an expert assessor	Company value, real estate market inputs	
<b>B. Items measured at fair value on a recurring basis</b>				
<b>Net Assets in respect of derivative instruments</b>				
Shekel/CPI Interest Rate Contracts	19	Discounted cash flow	One year period inflation expectations	From -1.42% to 2.48% (0.78%)
			Counterparty credit risk (CVA)	From 0.00% to 3.93% (0.08%)
Other Interest Rate Contracts	257	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 8.1% (0.27%)
Foreign Exchange Contracts	576	Discounted cash flow	One year period inflation expectations	From -1.42% to 1.83% (0.84%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 4.15% (0.01%)
<b>Liabilities</b>				
CLN Deposits	339	Discounted cash flow	Credit risk of the underlying asset	

## 16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

### E. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3 (CONTINUED)

#### 1. QUANTITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3 (CONTINUED)

Audited				
	Fair value as at December 31, 2016	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
<b>A. Items measured at fair value not on a recurring basis</b>				
Impaired credit the collection of which is collateral dependent	1,562	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	Valuation by an expert assessor	Company value, real estate market inputs	
<b>B. Items measured at fair value on a recurring basis</b>				
<b>Net Assets in respect of derivative instruments</b>				
Shekel/CPI Interest Rate Contracts	18	Discounted cash flow	The interest curve in the CPI linked segments	From -0.74% to 2.57% (-0.08%)
			Counterparty credit risk (CVA)	From 0.00% to 3.09% (0.42%)
Other Interest Rate Contracts	247	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 9.92% (0.07%)
Foreign Exchange Contracts	283	Discounted cash flow	The interest curve in the CPI linked segments	From -0.73% to 2.38% (-0.41%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 18.40% (0.16%)
<b>Liabilities</b>				
CLN Deposits	319	Discounted cash flow	Credit risk of the underlying asset	

#### 2. QUALITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

## 17. CREDIT CARD ACTIVITY

1. **Acquisition of the minority interest in Diners.** Note 36 A to the financial statements as of December 31, 2016, includes a description of the acquisition of the minority interests in Diners, including a dispute that had arisen between the parties regarding the entitlement of the sellers to additional consideration subject to conditions precedent. ICC has turned down the proposal of Blue Square for mediation proceeding in the matter.
2. **Amended cross clearing arrangement – reduction of the issuer commission rate.** The arrangement was described in Note 36 B 2 to the financial statements as of December 31, 2016. The approval of the Antitrust Tribunal to the cross-commission rate determined in the arrangement is expected to expire on December 31, 2018. At present discussions are being held with the Supervisor of Banks regarding the rate of the cross-commission that would be charged as from January 1, 2019.

## 17. CREDIT CARD ACTIVITY (CONTINUED)

3. **Motion for approval of a derivative claim.** Note 36 E (4) to the financial statements as of December 31, 2016, includes description of a motion for approval of a derivative claim. In accordance with a procedural arrangement reached between the parties, a claim and an amended motion for approval of the claim as a derivative claim (multi-party) was submitted to the Tel Aviv - Jaffa District Court on May 8, 2017. The amended motion included, inter alia, a cause of action relating to the conditional arrangement signed on November 3, 2016, by ICC and the State Attorney, in respect of which, ICC paid an amount of NIS 85 million, and respectively amendments were made to the arguments of the Appellant and to the alleged amount of the damage.

## 18. SHELF PROSPECTUS

On May 11, 2017, the Bank published a shelf prospectus (replacing the shelf Prospectus dated May 23, 2014, the validity of which was extended on April 20, 2016, to May 22, 2017), on the basis of the financial statements as of December 31, 2016.

## 19. PLEDGES, RESTRICTIVE TERMS AND COLLATERAL

Following the decisions of the boards of directors of the MAOF clearing house and of the Stock Exchange clearing house, the Board of Directors of the Stock exchange approved on October 27, 2016, the opening of accounts for the clearing houses with the Bank of Israel, this in order to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided in their favor by members of the clearing houses (hereinafter: "the collateral accounts"), and accordingly, amend the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the MAOF clearing house, this in addition to earlier pledges and without derogating there from.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the MAOF clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

It should be noted, that several mistakes were made in the description of the pledged assets in the registration of the pledges with the Registrar of Companies, made by the Stock Exchange and executed on April 26, 2017. Accordingly, the actual registration does not fully agree with that stated above. As informed to the Bank, the Stock Exchange is acting to rectify the mistakes made in the registration.

## 20. ISSUANCE OF SHARMARKES AND OPTION WARRANTS

On September 28, 2016, the Bank completed a public offering pursuant to a shelf offering report dated September 27, 2016, in the framework of which 69,497,700 ordinary A shares and 40,650,000 option warrants (Series 1) were issued, for a total immediate gross consideration of NIS 580 million. Each option warrant was exercisable into one ordinary share having a par value of NIS 0.1, subject to the adjustments specified in the shelf offering report. The option warrants were exercisable through March 31, 2017 (due to the absence of trade on the Stock Exchange on this date, the last day for the exercise of the option warrants was deferred to April 2, 2017).

A total of 8,757,870 option warrants were exercised until December 31, 2016, with additional consideration received in the amount of NIS 39 million. A total of additional 25,245,416 option warrants were exercised until March 31, 2017, with additional consideration received in the amount of NIS 113 million. The balance of the option warrants was exercised on April 2, 2017, in consideration for an additional payment of NIS 30 million.

## 21. ISSUE OF SUBORDINATED DEBT NOTES (SERIES L)

On January 9, 2017, the Bank completed the issue of subordinated debt notes in a total amount of NIS 784 million, which include a mechanism for the absorption of capital losses, being capital instruments classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital. Details regarding the terms of the said debt notes are presented in Note 25 N to the financial statements as of December 31, 2016.



## CORPORATE GOVERNANCE, AUDIT, ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

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## CORPORATE GOVERNANCE AND AUDIT

### BOARD OF DIRECTORS AND MANAGEMENT

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#### CHANGES IN MANAGEMENT

On April 2, 2017, Mr. Ziv Biron commenced service as member of Management with the title of Executive Vice President, Head of the Planning, Strategy and Finance Division (CFO), replacing Mr. Uri Levin, Senior Executive Vice President, who retired from office at the Bank on the said date. All as detailed in the immediate reports of April 2, 2017, (Ref. Nos. 2017-01-029410 and 2017-01-029407), the information contained therein is presented here by way of reference.

#### CHANGES IN THE BOARD OF DIRECTORS

The office of Director of Ms. Linda Benshoshan ended on April 30, 2017, all as stated in the immediate reports of April 30, 2017 (Ref. Nos. 2017-01-036187 and 2017-01-036190), the information therein is presented hereby by way of reference.

The Chairman of the Board, the Board of Directors and the President & CEO thank Ms. Ben Shushan and Mr. Levin for their activity and contribution during their period of office at the Bank, and wish Messers. Levin and Biran success in fulfilling their office.

#### MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first three months of 2017, the Board of Directors held 5 meetings. In addition, 17 meetings of committees of the Board of Directors were held.

### THE INTERNAL AUDIT IN THE GROUP

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Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work plans and the considerations at its basis were included in the 2016 Annual Report (pp. 328-330).

**Updates.** During the first quarter of 2017 the following periodic reports were submitted and discussed:

- The report on the activities of the internal audit in the fourth quarter of 2016 was submitted on January 17, 2017 and discussed in the Audit Committee on March 14, 2017;
- The annual report on the activities of the internal audit in 2016 was submitted on March 15, 2017, and discussed by the Audit Committee on April 4, 2017 and by the Board of Directors on April 24, 2017;
- The quarterly report on the activities of the internal audit in the first quarter of 2017 was submitted on April 24, 2017, and is yet to be discussed by the Audit Committee.

### INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

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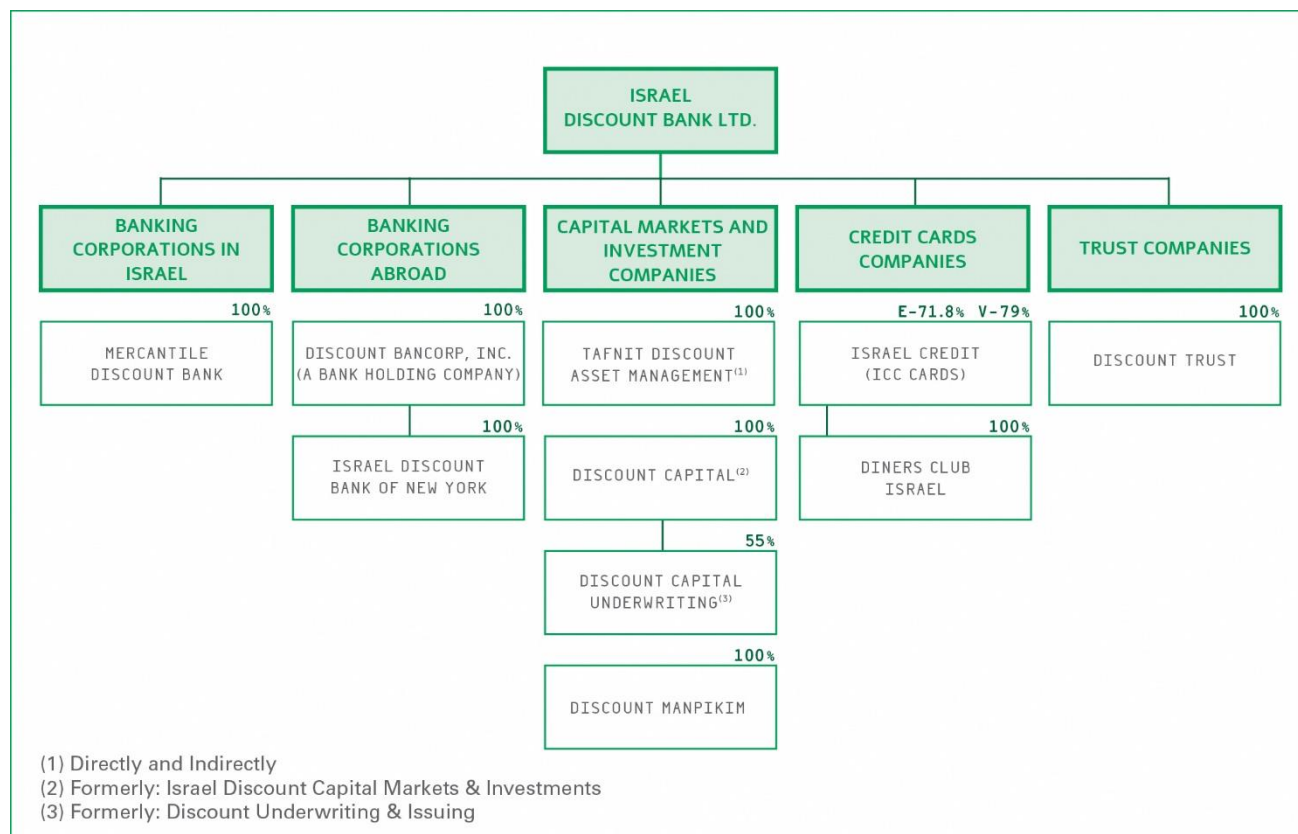
Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The volunteer activity within the framework of the "Lema'an" Project continued during the first quarter of 2017 - Discount Employees for the Community, in the framework of which, volunteer Bank employees contribute their time and compassion. The volunteer activity is varied and provides assistance and support to a wide range of components of the population in Israel: children and youth, students, servicemen, disadvantaged sectors, elderly, handicapped, infirm and such like.

In addition to the activities of "Lema'an" - Discount Employees for the Community project, described hereunder, the following activities were also conducted in the first quarter of 2017 in the culture and arts field, providing sponsorship and donations.

In the first quarter of 2017, the Bank continued the trend of supporting children and youth in various states of distress.

## ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

### DISCOUNT GROUP STRUCTURE



### FIXED ASSETS AND INSTALLATIONS

**Gain on sale of assets.** In the first quarter of 2017, a gain from the sale of properties of approx. NIS 15 million was recorded, net of the tax effect, compared with approx. 43 NIS million in the corresponding period last year.

**Establishment of the Discount Campus.** For details, see the 2016 Annual Report (p. 339) and Note 10 B 7 to the condensed financial statements.

### ACCESSIBILITY FOR HANDICAPPED PERSONS

At the present time, the Bank is in the midst of accessibility adjustments made at the Bank's properties (both from the aspect of accessibility to services and from the aspect of accessibility to buildings, infrastructure and the environment), within the framework of the fourth stage for accessibility, the due date of which is November 1, 2017. At the end of this stage, accessibility would be completed at 100% of the Bank's properties, as required by law.

For additional details, see the 2016 Annual Report (pp. 340-341).

### INFORMATION AND COMPUTER SYSTEMS – ICC

**Replacement of the core infrastructure system.** On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of computer services to ICC, within the framework of a multi-annual project for the replacement of the core infrastructure system of ICC. The aim of the project is the improvement in the business continuity of core operations, considering the termination date of the lifespan of the present

technological infrastructure, and its replacement by an advanced infrastructure having a long-term lifespan. The total cost of the project, including in-house inputs therein, is estimated at NIS 130 million, that would be completed during the years of the project.

## THE HUMAN CAPITAL

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**Labor dispute.** The Union of Clerks, Administrative Public Service Employees ("Histadrut HAMAOF") informed the Bank on April 19, 2017, of the declaration of a labor dispute by the Managers Representative Committee at the Bank. This, in terms of Sections 5A and 5B of the Settlement of Labor Disputes Act, 1957, and the Regulations enacted under it. According to the said notice, the Managers Committee may start a strike as from May 7, 2017, and thereafter. The notice applies to 1,501 employees of the managerial echelon at the Bank. The list of causes for the dispute is a long one and includes various subjects.

### IMPROVEMENT OF SERVICE

**Internal services survey.** The survey was published in February 2017, for the third time at Discount Bank, in a cross-organization format. The survey had measured 420 services provided by the various divisions. The rate of respondents reached 85%. Following the survey, feedback and improvement procedures have been instituted, similarly to those taken in 2016 (see the 2016 Annual Report, pp. 355-356). A date for the next survey was fixed for the last quarter of 2017.

**The handling of complaints.** The annual report to the public regarding the handling of complaints in 2016, is available on the Bank's Internet website.

### ORGANIZATIONAL CULTURE

**"The Discount Spirit".** In the first quarter of 2017, the Bank began the process of forming the "Discount Spirit" – vision, values and organizational ethics. For additional details see above "Management's handling of current material issue".

**A new "FaceBank" Portal.** The characterization and development process of a new FaceBank Portal was formed in the first quarter. The FaceBank Portal is the first of its kind in the banking industry which is Cloud based. The new FaceBank would enable access to employees, participation in know-how, a wide dialogue and new contents that would assist in the integration of information in a convenient manner and advanced user experience.

## RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

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For details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies, see the 2016 Annual Report (p. 359).

On April 27, 2017, Moody's ratified the rating of the Bank, as detailed in the immediate report of April 30, 2017 (Ref. No. 2017-01-036040), the content thereof is presented hereby by way of reference.

## ACTIVITY OF THE GROUP ACCORDING TO REGULATORY OPERATING SEGMENTS – ADDITIONAL DETAILS

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### HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

#### DEVELOPMENTS IN THE SEGMENT

**Branches.** At the end of the first quarter, the Bank has 120 branches in operation. 2 branches (the Top-Dan Branch and the Barzilai Extension in Ashkelon) were closed in the first quarter.

For details regarding the action taken in respect of Government assistance for the increase in competition in the retail credit market, see below under "Legislation and Supervision".

For details regarding "Discount Key" and "Discount – the Bank for the family", see the 2016 Annual Report (pp. 362-363).

## MORTGAGE ACTIVITY

At the present time, the Bank operates 61 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

The Bank operates two channels in the process of approving a mortgage, as follows:

- A direct approach channel to the mortgage loan officer at the branch;
- A direct channel of the call center specializing in mortgage loans, which provides service in two main areas, as follows:
  - Sales center dealing with approaches by customers seeking a new loan. Based on predetermined criteria, the center is authorized to grant to the customer a preliminary approval for a loan, with the process being continued at a personal meeting with the customer at the branch.
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch.
  - Response to existing customer questions regarding ongoing loans.

### Developments in the mortgage market

	For the three months ended March 31		Change in %
	2017	2016	
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	13,007	14,907	(12.7)
Loans from State funds	50	21	138.1

### New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the three months ended March 31,		For the year ended December 31,	
	2017	2016	2017	2016
	In NIS millions	Change in %	In NIS millions	
From bank funds <sup>(1)</sup>	1,536	1,542 (0.4)	7009.0	
From Treasury funds <sup>(2)</sup>	2	-	8.0	
Total of new loans	1,538	1,542 (0.3)	7017.0	
Recycled loans	77	178 (56.7)	503.0	
<b>Total</b>	<b>1,615</b>	<b>1,720 (6)</b>	<b>7,520</b>	

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 35 million in the first three months of 2017, compared to NIS 40 million as at March 31, 2016 and NIS 128 million in 2016.

(2) Including standing loans in the amount of NIS 0.1 million in the first three months of 2017, compared to NIS 0.1 as at March 31, 2016 and NIS 1.9 million in 2016.

For details regarding guidelines and instructions of the Supervisor of Banks designed to restrain the mortgage market, see the 2015 Annual Report (pp. 469-471). For additional details, see the 2016 Annual Report (pp. 360-366).

## PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

During the first quarter of 2017, the Bank intensified its activity with existing customers and new immigrants, the implementation of cross-border banking management rules and segmentation, namely, transferring foreign resident customers to specialized branches and/or to international banking.

For details regarding "Discount Invest", see the 2016 Annual Report (p. 368). For additional details, see the 2016 Annual Report (pp. 367-368).

## LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

### REACHING TARGETS AND BUSINESS STRATEGY – FIRST THREE MONTHS OF 2017

The Bank has acted in accordance with the work plan for the corporate banking segment, while focusing on increasing risk adjusted return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations, adjust the credit spreads to the risk level and to the reduction in exposure to activities involving a high level of risk.

### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

As of March 31, 2017, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as March 31, 2017, there were no deviations from the limitations on "related persons". In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.

### DEVELOPMENTS IN THE DEBT OF THE BUSINESS SECTOR

The debt of the business sector (excluding banks and insurance companies) amounted at the end of February 2017<sup>3</sup> to NIS 850 billion, a decrease of 0.5% compared with the end of December 2016 (all the rates of change are in nominal terms and are affected by changes in exchange rates and in the CPI).

The reduction in the debt stems from a 5% reduction in the debt to foreign residents, from the stability in the debt to banks and financial institutions and to an increase of 4% in the debt of the business sector to households and companies. It is noted that while the volume of private loans extended by institutional bodies continues to expand, the balance of bonds held by institutional bodies is contracting. As a result of the said trends, the trend of increase in the weight of the banks in the total debt of the business sector continues, growing from 46.8% at the end of 2016, to 47% at the end of February 2017.

During the period from January to March, the business sector (excluding banks and insurance companies) raised funds through the issuance of bonds to the tune of approx. NIS 16.5 billion (via the Tel Aviv Stock Exchange and by nonmarketable bonds). This is a relatively fast rate to the average of 2016, being NIS 10.8 billion per quarter.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of March 2017 was 1.33%, compared with 1.51% at the end of 2016 and 1.7% at the end of the corresponding quarter last year.

### DEVELOPMENTS IN THE SEGMENT'S MARKETS

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined sector, affected by foreign demand. In recent months this sector experienced a recovery, reflected in a moderate growth in production and in the sector's turnover, principally due to export sales. In addition to the improvement in the said indicators, the Purchase Managers Index, published for February 2017, stands at 62 points and indicates expectations for expansion in activity of this sector;
- Diamonds – The sector maintains stable profitability. On the other hand, continuous uncertainty prevails regarding the global economic condition, due to political events and a slowdown in growth of the Chinese market;
- The agricultural sector – Weakness in this sector continued in the first quarter of 2017, with low levels of agricultural exports and economic recession in the export markets;
- The commerce sector – The sector is mainly affected by domestic demand, when in the first quarter of 2017 the indicators point at the continuing expansion in private consumption, though at a slower pace than that of the previous quarters. The Consumer Confidence Index of the Central Bureau of Statistics dropped in February 2017 to a level of 16%. At the same time, moderation is experienced in the growth rate of turnovers of the retail and wholesale commercial sectors, as well as in the growth rate of purchases by credit cards;
- Real estate sector – for details, see below under "Construction and real estate activity".

<sup>3</sup> The most updated data available at the time of submitting the report to print.



## **ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS**

According to the growth forecast of the Bank of Israel of April 2017, the economy is expected to grow by a rate of 2.8% in 2017, showing a recovery in exports (3.5%) and a significant moderation in private consumption (3%). The principal changes in the forecast stem from the impact of volatility in the import of motor vehicles. The forecasted improvement in exports is expected to benefit the industrial sectors, while moderation in private consumption is expected to adversely affect the commerce sectors. Furthermore, the Bank of Israel has updated the inflationary forecast to 0.7% (for the year ending in the first quarter of 2018), and postpones the raising of the interest rate to the second quarter of 2018.

For details regarding developments expected in the real estate and infrastructure sector, see below under "Construction and real estate activity".

For details regarding the "Corporate Banking Segment", see the 2015 Annual Report (pp. 57-59, 431-437).

## **CONSTRUCTION AND REAL ESTATE ACTIVITY**

### **Developments in markets of the activity**

**Residential property.** A trend of moderation in the demand for residential units is noticed as from the fourth quarter of 2016, together with stability in the volume of mortgage loans and in housing pieces. This occurs on the background of the rise in the mortgage interest rate, delay by purchasers of a first apartment awaiting for the "Price for the qualified purchaser" plan, and the "Taxation of a third housing property" plan, which affects the investor segment.

**Income producing commercial real estate.** The commercial property market maintains its stability in occupancy rates and in rental prices. It is noted that accelerated development of commercial properties was noted in recent years, which might lead to a surplus in supply in certain areas.

**Income producing office premises.** The office premises market maintains its stability in occupancy rates and in rental prices. Notwithstanding the above, the existing supply of office premises and the building projects in process, mainly in the central region, might lead to a surplus in supply in certain areas.

### **Legislative and regulatory limitations and special constraints applying to the activity**

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives No. 315, a limitation applies to sectorial credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The Bank's sectorial credit concentration in the real estate sector stood at a rate of 17.5% as of March 31, 2017, compared with 19.3% at the end of 2015.

**Amendment No. 9 to the Sales Act (Residential units) (Securing the investment made by residential unit purchases).** The Amendment was published in the Official Gazette on March 30, 2017. According to the Amendment, Sales Act guarantees will be issued without the VAT component. Upon the exercise of a sale guarantee, the financing bank shall apply to the Fund, to be established at the Ministry of Finance, requesting on behalf of the purchaser exercising the sale guarantee, the refund of the amount of VAT, and upon receipt of the said amount, credit the respective purchaser. A notice announcing the establishment of the Fund for VAT Refunds was published in the Official Gazette on April 30, 2017. Also published were the bylaws of the Fund. The Bank is preparing for the implementation of the Amendment, which will enter into effect during May.

## **FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS**

### **NON-FINANCIAL COMPANIES**

#### **Legislative restrictions, regulations and special constraints applicable to the sub-segment**

As of March 31, 2017, the amount of the Bank's investment in non-financial corporations was less than the restricted amount pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details see the 2016 Annual Report (p. 381).

## Investment of the Group in private investment funds, venture capital funds and corporations

Discount Capital is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of March 31, 2017, the net investments of Discount Capital in these corporations and funds amounted to approx. US\$252 million. As of March 31, 2017, the maximum future commitment of Discount Capital for investment in these corporations and funds amounted to approx. US\$130 million.

In addition to the investment in funds through Discount Capital, Mercantile Discount Bank is committed to invest in four active venture capital funds. The balance of the investment amounts and of investment commitments is in immaterial amounts.

## Developments in the activity

**Realizations.** In the first three months of 2017, Discount Capital has recognized income in the total amount of NIS 75 million in respect of realizations of investments, mostly in respect of a realization by the Fortissimo II Fund (approx. NIS 59 million) and in respect of a realization in FIMI IV Fund (approx. NIS 10 million), compared with NIS 2 million in the corresponding period last year.

In April 2017, one of the Funds, in which Discount Capital invests, signed an agreement for the sale of one of its investments. The share of Discount Capital in the profit from the realization amounts to approx. NIS 12 million, before tax.

On May 4, 2017, one of the investee companies of the FIMI Group Funds, in which Discount Capital invests, reported that the controlling shareholders of that company, including the FIMI Group Funds, as stated, signed an agreement for the sale of all their interests in that company, in consideration for a total amount of US\$630 million. According to the report, consummation of the sale is conditional upon the fulfillment of a number of conditions, including obtaining regulatory approvals, though the parties expect that the transaction would be completed in the third quarter of 2017. If the transaction will be consummated, Discount Capital will recognize a pre-tax profit estimated at NIS 50 million. It is noted, that consummation of the transaction is not certain.

## INTERNATIONAL OPERATIONS SEGMENT – ADDITIONAL DETAILS

### LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS OVERSEAS

**Exposure restriction with regard to overseas extensions.** In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On March 31, 2017, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 16.03% of total risk assets, as compared with 17.35% on December 31, 2016. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group.

The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

## ADDITIONAL SEGMENTS

For additional details regarding the Small and minute businesses segment (Domestic operations), see the 2016 Annual Report (pp. 369-370). For additional details regarding the Medium businesses segment (Domestic operations), see the 2016 Annual Report (pp. 370-371). For additional details regarding the Institutional bodies segment (Domestic operations), see the 2016 Annual Report (p. 378).

## CREDIT CARD OPERATIONS

### Developments in operations

**Entry of a fourth clearing agent to the clearing market in Israel.** The Supervisor of Banks informed on April 4, 2017, of the granting of a clearing license to an additional factor, who would become the fourth clearing agent in the market. The notice states, that from a regulatory aspect, this factor may begin clearing operations as from now, though, due to operational reasons, he is anticipated to begin clearing operations in a year's time. The notice further states, that the fourth clearing agent is expected to also develop future debit card issuance

operations as well as offering credit to the public in Israel. In accordance with the notice, the license that had been granted as stated, is limited in scope, in view of the fact that the fourth clearing agent has to complete all the operational preparations in order to obtain a full license.

ICC and the Bank are of the opinion that at this stage it is not possible to assess the impact of entry of the additional clearing agent on the clearing market in Israel in general, and on ICC in particular.

## **LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS**

Presented below are details of a number of private Bills. The legislation procedures of these Bills have not yet been completed, in full or in part, and it is not possible to determine whether these Bills would be actually enacted. Notwithstanding, to the extent that these Bills would in fact be enacted, they may have material implication on the business results of ICC.

### **The Banking Act (Licensing) (Amendment – Reducing discretion in determining an Issuer with Wide-Ranging Activity) Bill, 2016.**

On March 21, 2016 the Banking Act (Licensing) (Amendment – Reducing discretion in determining an Issuer with Wide-Ranging Activity) Bill, 2016 was tabled before the Knesset. Within the framework of the Bill, it is proposed to amend Section 36 M (a) of the Banking Act (Licensing), dealing with the determination of Issuers with Wide-Ranging Activity, while reducing the discretion granted to the Minister of Finance in this matter, and to change the determination of issuers as having a "Wide-Ranging Activity" into a default option, on the basis of an examination of the operations of a corporation in which the issuer is an interested party, holds control thereof, or of a corporation in which, whoever controls the issuer, is an interested party. Concurrently, the instruction of Section 36 M (c) of the Banking Act (Licensing), 1981, remains in effect, whereby the Minister of Finance, in consultation with the Supervisor of Banks and the Antitrust Commissioner, is permitted to exempt an issuer having a Wide-Ranging Activity from the instructions of Section 36 M (b) in cases where the Minister is of the opinion that application of the instructions of the said Section on that issuer might in fact impair competition in the field of credit card issuance, and this as an exception to the general rule. It transpires from the said Bill that it might apply to Diners.

**Banking Act (Customer service) (Amendment – Supplier of material discounting services) Bill, 2016.** On March 14, 2016 the Banking Act (Customer service) (Amendment – Supplier of material discounting services) Bill, 2016 was tabled before the Knesset. Within the framework of the Bill, a new status was determined for a large discounting company, namely, "supplier of material discounting services". According to the Bill, the clearing commission fee that the clearing company charges for all transactions of a supplier of material discounting services, would be a uniform commission fee. It is further proposed that a clearing company would be permitted to charge a supplier of material discounting services a price which would not exceed the price charged by the clearing company to an existing customer of which, who clears transactions of a monetary volume similar to that of the discounting company. Thirdly, it is proposed that a clearing agent may not refuse the engagement between a supplier and a supplier of material discounting services, due to the fact that the supplier had been granted a loan or credit by the clearing agent.

**The Debit Card (Amendment – SMS notice regarding an inactive card) Bill, 2015.** On October 12, 2015 the Bill regarding an SMS notice in respect of an inactive card was tabled before the Knesset. The Bill proposes that issuers of debit cards would be required to inform customers that the debit cards held by them have been inactive for a period of over three months. Inter alia, issuers of debit cards would have to inform as to the inactivity of the card, the service fee for the card, in case the card is still exempt from service fees – the date of expiry of the exemption, as well as inform the customer of the manner of cancelling the card. The notice to the customer would be made by SMS. An additional Bill in the matter, similar in content to the above mentioned Bill was tabled before the Knesset on March 14, 2016.

For additional details see the 2016 Annual Report (pp. 385-389).

## **TECHNOLOGICAL IMPROVEMENTS AND INNOVATION**

**General.** Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken in this field may be noted the establishment of the digital department and the establishment of a "fintech and innovation" unit.

### **"PAYBOX"**

On April 26, 2017, the Bank entered into an agreement with a startup company in the Fintech field by the name of PayBox Payment Solutions Ltd. ("the company"). The company has developed a cellular phone application and a designated Internet website under the brand name of "PayBox", by which it operates and provides payment services intended to customers of all the banks in Israel. The service provides for the

transfer of funds between private individuals, as well as the collective collection of funds for a defined purpose by way of establishing a closed group for this purpose.

In accordance with the above agreement, the Bank would acquire from the company an exclusive license to operate the application and the website in Israel, and would also acquire from the company a number of assets and services that would enable it to independently continue to operate the application and the website and offer the service to individuals operating a bank account with any of the banks in Israel. The beginning of these operations and completion of the agreement are, inter alia, subject to obtaining the regulatory approvals and to technological modifications.

## DIRECT CHANNELS

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. Within the framework of this activity, the Bank introduced the following products and services during the first quarter of 2017:

**Savings for every child.** Within the framework of the program of the Ministry of Finance and the National Insurance Institute for the depositing of funds in a child savings program up to the age of 18, the Bank's marketing Internet website presented explanations and selection of "savings for every child" routes offered by Discount Bank, including a link for the selection of the desired route to the website of the National Insurance Institute.

**"Toucher Account", the digital account of Discount Bank.** Private customers using digital banking may join a "toucher Account" and enjoy the experience of an advanced and multi-channel digital service. Among other things, Toucher customers enjoy exemption from current account management fee and credit card fees, as well as the possibility to communicate with the Bank officer by email or by the mobile application, to order a credit card by digital means, to obtain consulting services by telephone through a central investment center and to have extended business hours. The transfer to a "Toucher Account" is made through the mobile application and on the activity website, and a new customer wishing to join the service within the framework of the online opening of an account, may do so already upon the opening of the account on the website.

**Touch to a banker – correspondence with a bank officer – via the mobile application.** Customers may correspond with a bank officer through the mobile application, receive information and conduct transactions. At the present stage, this service is provided by a number of branches and until the end of 2017 would be offered to all customers.

**Increasing the maximum amount for transfers - via the website or mobile application for private customers.** All private digital subscribers enjoy the possibility of transferring funds in higher amounts, subject to their authorization and to the available balance on their account, by punching a singular verification code (OTP) sent to them by SMS message.

**"My account" Widgets.** The widget presents information regarding the customer's account in a swift and convenient manner with no need for identification procedures, similarly to the "quick look" service on the mobile application: the current account balance, the last three entries, the imminent credit card charge and the value of the securities portfolio.

**Discount BOT.** A digital accessory allowing Internet browsers, customers of all banks, to conduct a conversation with a digital representative (a robot) on a designated Facebook page, on Facebook Messenger – "Discount BOT". "Discount BOT" is based on advanced technology, enabling mechanized communication to browsers by way of "chat communication". The BOT identifies and decodes the contents of the approach – made by open writing – and accordingly provides an automatic response, on the basis of the available data base, on an array of subjects that would grow in the future.

**Signature regarding fields of activity - on the website for private customers.** Sole private owners of shekel or foreign currency current accounts may sign authorizations regarding fields of activity through the website, without having to do so physically at the branch. This applies to the account immediately and allows the customer, among other things, to obtain information and conduct transactions in these fields by digital means (subject to their authorization).

**Recovery of the secret code for a credit card - on the website and through the mobile application for private customers.** This service provides for the immediate presentation of the secret code for a credit card on the monitor by link to the ICC website (instead of receiving it by mail as was the practice hitherto).

**3DTouch - on the mobile application for private customers.** A long press on the application icon in supported iPhones presents a menu that includes locations of Bank branches, ordering the transfer of funds, depositing a check and the withdrawal of cash without use of a card. Pressing one of these items leads the customer to the relevant page in the application, following an identification process.

## MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST THREE MONTHS OF 2017

### DEVELOPMENTS IN THE GLOBAL ECONOMY

**General.** The first quarter of 2017 was characterized by recovery in global growth, with private consumption continuing to lead growth in the developed economies. At the same time, the inflationary environment recorded a rise to a level proximate to the targets of the central banks. The U.S. economy grew in the first quarter of the year at a rate of 0.7% only (in annualized terms). This, mostly, against the background of a slowdown in private consumption. The Eurozone grew at a rate of 1.8%. Concurrently, the unemployment rate continues to fall, to a level of 4.4% in the United States and to 9.5% in the Eurozone, compared with 4.4% and 9.7% in the last quarter of 2016 (average for the quarter), respectively.

In the first quarter of 2017, most developed countries were characterized by positive inflationary environment and higher than its level one year ago. At the end of the quarter, annual inflation in the United States and in the Eurozone stood at 2.4% and 1.5%, respectively. Stabilization and even recovery in growth, alongside the rise in the inflationary environment, supported the gradual change in direction of the monetary policy. In the U.S., the interest rate rose by 0.25% to 0.75%-1%.

**Financial markets.** The trading in equities around the world was characterized by price increases, particularly on the background of the global recovery and the low interest environment.

#### The changes in selected share indices recorded during the first three months of the years 2016 and 2017

Index	2017	2016
500 S&P	5.5%	0.8%
DAX	7.3%	(7.2%)
MSCI Emerging Markets	11.1%	5.4%

A low volatility was recorded on the equities markets, concurrently with a moderate reduction in returns on government bonds in the U.S.. At the end of the first quarter, the returns on 10-year bonds fell to a level of 2.39% from a level of 2.44% at the beginning of the quarter.

#### The returns on government bonds

Return on bonds for 10 years	March 31, 2017	December 31, 2016
U.S.A.	2.39%	2.44%
Germany	0.33%	0.21%

In the first quarter, the dollar weakened against most of the world's currencies, principally, on the background of expectations for the delay in the implementation of the expansionary fiscal policy in the U.S.. This followed the significant strengthening of the dollar against most currencies in the last quarter of 2016.

#### Changes in the U.S. dollar against selected currencies

Exchange rate	2017	2016
EUR	1.3%	4.7%
JPY	(4.8%)	(6.4%)
GBP	1.7%	(2.3%)

Oil prices dropped in the first quarter of the year, following significant increases during 2016.

#### Changes in selected commodities indexes

	2017	2016
The commodities index - GSCI	(5.0%)	(2.5%)
The oil price (BRENT)	(7.0%)	6.2%
The oil price (WTI)	(5.8%)	3.5%
Gold	8.9%	16.0%



## MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

### GENERAL<sup>4</sup>

The data produced by the manpower survey for the first quarter indicate the continuation of improvement in the labor market, with an additional reduction in unemployment to a level of 3.7% (principal working age – 25-64) compared to 3.8% in the previous quarter. Furthermore, the number of employed persons continues to rise (an addition of some 15 thousand employed persons), alongside stability in the participation rate (80%). Over and above the improvement in the principal data, improvement is noted also in the volume of positions, with an increase of 20 thousand full-time positions (for all employed persons) and stability in the number of part-time positions. The improvement in the labor market, together with additional current data, point at a stable growth of the economy also in the first quarter of 2017.

### DEVELOPMENTS IN ECONOMIC SECTORS

The average industrial production for the months of January and February 2017<sup>5</sup>, expanded by a rate of 1.2%, compared with the monthly average in the last quarter of 2016. This on the background of the acceleration in the operations of industrial sectors characterized by the strength of the mixed hi-tech technology. On the basis of the same comparison, the average wholesale and retail trade turnover rose by 0.7% and 0.3%, respectively, in the months January-February 2017.

### DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY

During January-February 2017<sup>4</sup>, direct investments of foreign residents in Israel (through banks) amounted to US\$1.2 billion. Financial investments of foreign residents on the Tel Aviv Stock Exchange, amounted in the reviewed period to US\$2.9 billion, compared to US\$1.9 billion in the first quarter of 2016. The exceptional growth stems mostly from the issuance of marketable government bonds abroad. Financial investments in marketable securities by Israeli residents abroad amounted in the months of January-February 2017, to US\$1.46 billion, almost evenly distributed between bonds and equities.

#### The changes recorded in investments of the Israeli economy abroad

	January-February 2017	January-March 2016
<b>Investments in Israel by foreign residents</b>		
	US\$ billion	
Total direct investments through banks	1,181	2,560
Total financial investments	2,882	1,882
Of which: Government bonds and MAKAM	1,976	1,906
Shares	848	67

	January-February 2017	January-March 2016
<b>Investments abroad by Israeli residents</b>		
	US\$ billion	
Total direct investments	167	(110)
Total financial investments	1,462	382

### DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

A rise in the inflation rate was recorded during the first quarter of 2017, totaling 0.9% in the period of twelve months ended in March 2017. This compared to a negative inflationary rate of 0.7% in the period of twelve months ended in March 2016. Most of the rise in the inflationary rate was due to a global increase in oil prices and to the lessening of the mitigating effect of the reduction in prices stemming from Government decisions (reduction in import duties, reduction in the VAT, electricity and water rates).

As regards the exchange rate, the shekel maintained its stature with an appreciation of 5.5% and 4.5% against the U.S. dollar and against the effective currency array, respectively.

<sup>4</sup> The growth figures in Israel for the first quarter of 2017 were not available at the time the report was submitted to the printing press.

<sup>5</sup> The most updated data available at the time of submitting the report to print.

## FISCAL AND MONETARY POLICY

**Fiscal policy.** The cumulative deficit for the twelve months ended in March 2017, amounted to 2.3% of the GDP, compared to the annual target of 2.9%. A deficit of NIS 2.4 billion was measured in the first quarter of the year in the budgetary activity of the Government, compared to a surplus of NIS 0.9 billion in the corresponding period last year.

**Monetary policy.** The monetary policy of the Bank of Israel during the reviewed period continued to be extremely expansionary, with interest remaining at an all-time low of 0.1%. This is due to the low inflationary environment, which is still below the lower edge of the inflationary target. Moreover, the Bank of Israel increased during the quarter its involvement in the foreign currency market, and purchased dollars in an amount that exceeded that planned in the gas plan, in order to support the shekel.

## CAPITAL MARKET

The reviewed period was characterized by high volatility in the Israeli capital market, primarily due to global developments. In conclusion for the period, the main indexes recorded drops in prices due, inter alia, to weakness in dominant sectors, such as medicines.

### The changes recorded in selected share indices during the first three months of 2016 and 2017

Index	2017	2016
General share index	2.2%	11.8%
TA 35	(5.0%)	(5.1%)
TA 125	(2.4%)	(4.9%)
TA banks	1.5%	2.8%
TA Global – Bluetech	(3.5%)	2.0%
TA Real-estate	12.3%	(5.1%)

Trading in government bonds in Israel was characterized by a downward trend in returns, inter alia, due to a decline in inflationary expectations and to a further postponement in estimates regarding the beginning of raising of the interest rate in Israel. During the course of the period, the 10-year shekel return (Shekel Government bonds 827) fell by 5 basis points and was traded at the end of the quarter at a level of 2.15%. A decline in returns was recorded in all shekel graphs, though mostly in the medium-long term part.

### The changes recorded in selected bond indices during the first three months of 2016 and 2017

Index	2017	2016
General bonds	0.6%	(1.3%)
General Government bonds	0.1%	(1.4%)
Shekel Government bonds	0.6%	(1.2%)
Linked Government bonds	(0.6%)	(1.8%)
General Corporate bonds	1.5%	(1.0%)
Linked Corporate bonds	1.2%	(1.1%)
Shekel Tel-Bond	2.0%	1.3%

In the first quarter of 2017, capital raised through the issuance of corporate bonds by Israeli companies totaled NIS 20.8 billion, compared with NIS 18.5 billion in the first quarter of 2016. Of the above sum, NIS 3.5 billion was issued by banks, compared with NIS 11.6 billion in the first quarter of 2016.

## THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial assets portfolio held by the public contracted in the months of January-February 2017<sup>6</sup>, by 1.4%, amounting at the end of February to NIS 3.39 trillion. The said reduction stemmed from a reduction in all components, excluding CPI-linked.

### The distribution of the asset portfolio held by the public

	February 28, 2017	December 31, 2017
Shares	21.7%	22.2%
Non-linked assets	36.4%	36.1%
CPI linked assets	29.6%	29.1%
Foreign currency linked assets	12.4%	12.6%

## PRINCIPAL ECONOMIC DEVELOPMENTS IN APRIL AND MAY 2017<sup>6</sup>

The current macro-economic data for the second quarter of the year indicate the continuation of a moderate growth trend, with an improvement in the U.S. on the background of the continuing improvement in the labor market. The inflationary environment in the U.S. became more moderate while in the Eurozone, the inflation rate started to grow again. The rate of increase in the interest rate, taken already into consideration in market prices, resembles the estimates of the FED. The signs in Europe are that the monetary policy will remain unchanged in the coming months, and the ECB is expected to announce, in the second half of the year, a reduction in the monetary expansion as from the year 2018.

In Israel, the current data for the month of April mostly includes sentiment indices, which indicate optimism regarding the scope of activity during the month of April in industry, as well in retail trading and in services. Since the beginning of April the shekel was devalued by 0.5% in relation to the effective currency array. Against the principal currencies, a mixed trend was recorded, the Shekel weakening against the Euro by 2.1% and appreciating against the U.S. dollar by 0.6%. The share prices on the Tel Aviv Stock Exchange recorded a positive mixed trend, marked with considerable fluctuations. In total for the period, the indices TA 35 and TA 125 rose by 1.9% and by 3%, respectively. Government bonds recorded a moderate rise in returns, mostly with respect to the long-term parts of the shekel graph, alongside stability in the medium to short-term part.

<sup>6</sup> All data relate to the period from April 1, 2017 and until May 10, 2017.



## LEGISLATION AND SUPERVISION

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Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

### LEGISLATION FOR INCREASING COMPETITION IN BANKING AND FINANCIAL SERVICES

**A measurable test draft for the measuring success in increasing competition in the banking sector.** The Committee for the examination of competition in the credit market published on May 11, 2015, a set of measurable tests for examining success in increasing competition in the banking market, in accordance with the requirements of the law, and invited public comments on the document. For additional details, see the 2016 Annual Report (p. 399, item 1.12).

**Automatic Banking Services (ABS) – Reduction in holdings.** In accordance with the law, the Bank is obliged to reduce its holdings in ABS to 10% within a period of four years. For additional details, see the 2016 Annual Report (p.398).

**Draft document of principles – Government assistance for the increase in competition in the retail credit market.** The draft was issued in April 2017. The draft document states rules and terms for the granting of assistance by the Government (loans, which under certain conditions turn into grants) for designated companies providing retail credit (credit to small and medium businesses and credit to households, excluding housing loans), which are controlled by institutional bodies. The terms according to which such assistance would be offered include, inter alia, a restriction regarding the rate of financing that would be raised by the designated company from banking corporations, as well as a prohibition on the acquisition by the designated credit company, of external operating services (marketing, underwriting, loan granting and collection) from banking corporations.

**Draft amendment of a circular regarding investment rules applying to institutional bodies.** The draft amendment was published on April 6, 2017. The proposed amendment permits institutional bodies to establish companies that would operate as off-banking credit companies and would compete with the Banks. The aim of this move is to increase competition in the field of credit against banks, and to reduce the cost of loans.

**The Supervision over Financial Services Bill (Regulated financial services) (Amendment No. 4) (Operation of a credit brokerage system), 2017.** The Bill passed the first reading by the Knesset, was published on the Official Gazette and is expected to be discussed by the Reform Committee of the Knesset. For additional details, see the 2016 Annual Report (p.400).

### ANTITRUST

**Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS.** The validity of the exemption from a restrictive agreement between ABS and the banks, including all its terms, has been extended until May 18, 2017 (see the 2016 Annual Report, p.402).

For further details regarding "Legislation and Supervision", see the 2016 Annual Report (pp. 396-412).

## LEGAL PROCEEDINGS

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Material claims outstanding against the Bank and its consolidated subsidiaries are described in the 2016 Annual Report (pp. 233-238) and Note 10 to the condensed financial statements.

### ADDITIONAL LEGAL PROCEEDINGS

**Motion for approval of a class action by employees who had elected early retirement.** The date of hearing proof in the case that was fixed for April 24, 2017, was postponed to an as yet unspecified date, due to the Claimant not having completed preliminary proceedings. For additional details, see the 2016 Annual Report (pp. 412-413).

### MATERIAL LEGAL PROCEEDINGS SETTLED IN THE FIRST QUARTER OF 2017

No material legal proceedings have been concluded in the first quarter of 2017.

## PROCEEDINGS REGARDING AUTHORITIES

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Request for information regarding the mortgage loan field – on January 4, 2017, the Bank received a request submitted by the Antitrust Authority, according to which, within the framework of the examination performed with respect to competition in the mortgage loan field, the Bank is required to deliver to the Antitrust Authority information, documentation and data as detailed in the request. A similar demand was received by MDB. The required material has been delivered to the Antitrust Authority.

For additional details, see the 2016 Annual Report (p. 414).

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## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES

### PART "A" - AVERAGE BALANCES AND INTEREST RATES - ASSETS

	For the three months ended March 31					
	2017			2016		
	Average balance <sup>(2)</sup>	Interest income	Rate of income	Average balance <sup>(2)</sup>	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
<b>Interest bearing assets:</b>						
Credit to the public: <sup>(3)</sup>						
In Israel	112,190	1,086	3.93	101,998	900	3.58
Outside Israel	21,197	196	3.75	21,384	192	3.64
<b>Total credit to the public</b>	<b>133,387</b>	<b>*1,282</b>	<b>3.90</b>	<b>123,382</b>	<b>*1,092</b>	<b>3.59</b>
Credit to the Government:						
In Israel	758	5	2.66	505	3	2.40
Outside Israel	4	(10)₋	-	14	(10)₋	-
<b>Total credit to the Government</b>	<b>762</b>	<b>5</b>	<b>2.65</b>	<b>519</b>	<b>3</b>	<b>2.33</b>
Deposits with banks:						
In Israel	3,100	5	0.65	3,156	3	0.38
Outside Israel	616	2	1.31	810	1	0.49
<b>Total deposits with banks</b>	<b>3,716</b>	<b>7</b>	<b>0.76</b>	<b>3,966</b>	<b>4</b>	<b>0.40</b>
Deposits with central banks:						
In Israel	19,532	4	0.08	18,119	4	0.09
Outside Israel	1,254	3	0.96	1,778	2	0.45
<b>Total deposits with central banks</b>	<b>20,786</b>	<b>7</b>	<b>0.13</b>	<b>19,897</b>	<b>6</b>	<b>0.12</b>
Securities borrowed or purchased under resale agreements:						
In Israel	537	(10)₋	-	250	(10)₋	-
<b>Total securities borrowed or purchased under resale agreements</b>	<b>537</b>	<b>-</b>	<b>-</b>	<b>250</b>	<b>-</b>	<b>-</b>
Bonds held for redemption and available for sale: <sup>(4)</sup>						
In Israel	25,025	68	1.09	22,942	44	0.77
Outside Israel	10,558	59	2.25	11,245	66	2.37
<b>Total bonds held for redemption and available for sale</b>	<b>35,583</b>	<b>127</b>	<b>1.44</b>	<b>34,187</b>	<b>110</b>	<b>1.29</b>
Trading bonds: <sup>(4)</sup>						
In Israel	2,816	5	0.71	3,138	(2)	(0.25)
Outside Israel	59	(10)₋	-	624	(10)₋	-
<b>Total trading bonds</b>	<b>2,875</b>	<b>5</b>	<b>0.70</b>	<b>3,762</b>	<b>(2)</b>	<b>(0.21)</b>
Other assets:						
In Israel	-	-	-	-	(9)₋	-
Outside Israel	698	7	4.07	711	5	2.84
<b>Total other assets</b>	<b>698</b>	<b>7</b>	<b>4.07</b>	<b>711</b>	<b>5</b>	<b>2.84</b>
<b>Total interest bearing assets</b>	<b>198,344</b>	<b>1,440</b>	<b>2.94</b>	<b>186,674</b>	<b>1,218</b>	<b>2.64</b>
Debtors in respect of credit card operations	6,243			6,025		
Other non-interest bearing assets <sup>(5)</sup>	15,317			15,435		
<b>Total assets</b>	<b>219,904</b>			<b>208,134</b>		
Of which: Total interest bearing assets attributable to operations outside Israel	34,386	267	3.14	36,566	266	2.94
* Commissions included in interest income from credit to the public		76			81	

For footnotes see page 205.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "B" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

	For the three months ended March 31					
	2017			2016		
	Average balance <sup>(2)</sup> In NIS millions	Interest expenses	Rate of expense In %	Average balance <sup>(2)</sup> In NIS millions	Interest expenses	Rate of expense In %
<b>Interest bearing liabilities:</b>						
Deposits from the public:						
In Israel - On call	30,613	1	0.01	28,204	1	0.01
In Israel - Time deposits	82,538	95	0.46	74,511	32	0.17
<b>Total deposits from the public in Israel</b>	<b>113,151</b>	<b>96</b>	<b>0.34</b>	<b>102,715</b>	<b>33</b>	<b>0.13</b>
Outside Israel - On call	13,203	18	0.55	13,574	17	0.50
Outside Israel - Time deposits	7,968	21	1.06	<sup>(11)</sup> 8,239	<sup>(11)</sup> 20	0.97
<b>Total deposits from the public outside Israel</b>	<b>21,171</b>	<b>39</b>	<b>0.74</b>	<b>21,813</b>	<b>37</b>	<b>0.68</b>
<b>Total deposits from the public</b>	<b>134,322</b>	<b>135</b>	<b>0.40</b>	<b>124,528</b>	<b>70</b>	<b>0.23</b>
Deposits from the Government:						
In Israel	223	1	1.81	244	<sup>(10)</sup> -	-
Outside Israel	84	<sup>(10)</sup> -	-	<sup>(11)</sup> 16	<sup>(10)</sup> / <sup>(11)</sup> -	-
<b>Total deposits from the Government</b>	<b>307</b>	<b>1</b>	<b>1.31</b>	<b>260</b>	<b>-</b>	<b>-</b>
Deposits from banks:						
In Israel	3,430	4	0.47	3,107	3	0.39
Outside Israel	1,426	4	1.13	932	4	1.73
<b>Total deposits from banks</b>	<b>4,856</b>	<b>8</b>	<b>0.66</b>	<b>4,039</b>	<b>7</b>	<b>0.70</b>
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,471	34	3.98	3,851	38	4.01
<b>Total securities loaned or sold under repurchase agreements</b>	<b>3,471</b>	<b>34</b>	<b>3.98</b>	<b>3,851</b>	<b>38</b>	<b>4.01</b>
Bonds and subordinated debt notes:						
In Israel	9,193	94	4.15	9,541	53	2.24
<b>Total bonds and subordinated debt notes</b>	<b>9,193</b>	<b>94</b>	<b>4.15</b>	<b>9,541</b>	<b>53</b>	<b>2.24</b>
Other liabilities:						
In Israel	74	1	5.52	82	1	4.97
<b>Total other liabilities</b>	<b>74</b>	<b>1</b>	<b>5.52</b>	<b>82</b>	<b>1</b>	<b>4.97</b>
<b>Total interest bearing liabilities</b>	<b>152,223</b>	<b>273</b>	<b>0.72</b>	<b>142,301</b>	<b>169</b>	<b>0.48</b>
Non-interest bearing deposits from the public	38,032			37,340		
Creditors in respect of credit card operations	6,769			6,516		
Other non-interest bearing liabilities <sup>(6)</sup>	7,959			8,513		
<b>Total liabilities</b>	<b>204,983</b>			<b>194,670</b>		
<b>Total capital resources</b>	<b>14,921</b>			<b>13,464</b>		
<b>Total liabilities and capital resources</b>	<b>219,904</b>			<b>208,134</b>		
<b>Interest margin</b>		<b>1,167</b>	<b>2.22</b>		<b>1,049</b>	<b>2.16</b>
<b>Net return on interest bearing assets:<sup>(7)</sup></b>						
In Israel	163,958	977	2.40	150,108	862	2.32
Outside Israel	34,386	190	2.23	36,566	187	2.06
<b>Total net return on interest bearing assets</b>	<b>198,344</b>	<b>1,167</b>	<b>2.37</b>	<b>186,674</b>	<b>1,049</b>	<b>2.27</b>
Of which: Total interest bearing liabilities attributable to operations outside Israel	26,152	77	1.18	26,612	79	1.19

For footnotes see page 205.

## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "C" - AVERAGE BALANCES AND INTEREST RATES - ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

For the three months ended March 31						
	2017			2016		
	Average balance <sup>(2)</sup>	Interest income (expense)	Rate of income (expense)	Average balance <sup>(2)</sup>	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
<b>Non-linked shekels:</b>						
Total interest bearing assets	127,887	973	3.08	114,402	876	3.10
Total interest bearing liabilities	(96,706)	(82)	(0.34)	(85,667)	(68)	(0.32)
<b>Interest margin</b>		<b>891</b>	<b>2.74</b>		<b>808</b>	<b>2.78</b>
<b>CPI-linked shekels:</b>						
Total interest bearing assets	19,807	92	1.87	19,371	<sup>(9)</sup> (23)	(0.47)
Total interest bearing liabilities	(11,766)	(82)	(2.82)	(13,632)	1	0.03
<b>Interest margin</b>		<b>10</b>	<b>(0.95)</b>		<b>(22)</b>	<b>(0.44)</b>
<b>Foreign Currency (including foreign currency-linked shekels):</b>						
Total interest bearing assets	16,264	108	2.68	16,335	99	2.45
Total interest bearing liabilities	(17,599)	(32)	(0.73)	(16,390)	(23)	(0.56)
<b>Interest margin</b>		<b>76</b>	<b>1.95</b>		<b>76</b>	<b>1.89</b>
<b>Total operations in Israel:</b>						
Total interest bearing assets	163,958	1,173	2.89	150,108	952	2.56
Total interest bearing liabilities	(126,071)	(196)	(0.62)	(115,689)	(90)	(0.31)
<b>Interest margin</b>		<b>977</b>	<b>2.27</b>		<b>862</b>	<b>2.25</b>

For footnotes see next page.



## APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

### PART "D" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

For the three months ended March 31			
2017 Compared to 2016			
Increase (decrease) due to change <sup>(8)</sup>			
	Quantity	Price	Net change
In NIS millions			
<b>Interest bearing assets:</b>			
Credit to the public:			
In Israel	99	87	186
Outside Israel	(2)	6	4
<b>Total credit to the public</b>	<b>97</b>	<b>93</b>	<b>190</b>
<b>Other interest bearing assets:</b>			
In Israel	6	29	35
Outside Israel	(11)	8	(3)
<b>Total other interest bearing assets</b>	<b>(5)</b>	<b>37</b>	<b>32</b>
<b>Total interest income</b>	<b>92</b>	<b>130</b>	<b>222</b>
<b>Interest bearing liabilities:</b>			
Deposits from the public:			
In Israel	9	54	63
Outside Israel	(1)	3	2
<b>Total deposits from the public</b>	<b>8</b>	<b>57</b>	<b>65</b>
<b>Other interest bearing liabilities:</b>			
In Israel	<sup>(10)</sup> –	43	43
Outside Israel	1	(5)	(4)
<b>Total other interest bearing liabilities</b>	<b>1</b>	<b>38</b>	<b>39</b>
<b>Total interest expenses</b>	<b>9</b>	<b>95</b>	<b>104</b>
<b>Interest income, net</b>	<b>83</b>	<b>35</b>	<b>118</b>

Footnotes:

- (1) The data is presented after the effect of hedge derivative instruments.
- (2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.
- (3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.
- (4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS (4) million and NIS 57 million, respectively; 2016 – NIS 1 million and NIS 220 million respectively.
- (5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.
- (6) Including derivative instruments.
- (7) Net return – net interest income divided by total interest bearing assets.
- (8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.
- (9) Reclassified, see Note 1 G (1).
- (10) An amount lower than NIS 1 million.

## APPENDIX NO. 2 – ADDITIONAL DETAILS – SECURITIES PORTFOLIO

## 1. AVAILABLE FOR SALE BONDS – DATA ACCORDING TO ECONOMIC SECTORS

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

		March 31, 2017		
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Non government bonds				
Various sectors	1,503	1,531	31	3
Financial services <sup>(1)</sup>	8,311	8,253	21	79
<b>Total non government bonds</b>	<b>9,814</b>	<b>9,784</b>	<b>52</b>	<b>82</b>
Government bonds				
U.S. government	447	447	1	1
Israel Government	16,196	16,282	105	19
Other Governments	263	264	1	*
<b>Total government bonds</b>	<b>16,906</b>	<b>16,993</b>	<b>107</b>	<b>20</b>
<b>Total bond in the available-for-sale portfolio</b>	<b>26,720</b>	<b>26,777</b>	<b>159</b>	<b>102</b>

\*An amount lower than NIS 1 million.

## (1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

		March 31, 2017		
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Banks and banking holding companies <sup>(2)</sup>	983	989	9	3
Insurance and provident funds	56	57	1	*
Ginnie Mae	5,822	5,765	5	62
Freddie Mac	455	451	1	5
Fannie Mae	815	809	3	9
Other	180	182	2	-
<b>Total financial services</b>	<b>8,311</b>	<b>8,253</b>	<b>21</b>	<b>79</b>

\*An amount lower than NIS 1 million.

## (2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

		March 31, 2017		
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Western Europe <sup>(3)</sup>	667	670	5	2
Australia	316	319	4	1
<b>Total banks and banking holding companies</b>	<b>983</b>	<b>989</b>	<b>9</b>	<b>3</b>

## APPENDIX NO. 2 – ADDITIONAL DETAILS – SECURITIES PORTFOLIO (CONTINUED)

1. AVAILABLE FOR SALE BONDS – DATA ACCORDING TO ECONOMIC SECTORS (CONTINUED)**(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe**

Britain	237	236	1	2
Switzerland	157	158	1	-
Sweden	38	39	1	-
France	156	156	-	-
Netherlands	47	48	1	-
Germany	32	33	1	-
<b>Total</b>	<b>667</b>	<b>670</b>	<b>5</b>	<b>2</b>

2. HELD-TO-MATURITY SECURITIES – DATA ACCORDING TO ECONOMIC SECTORS**Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors**

March 31, 2017				
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
<b>Non government bonds</b>				
Public and community services	<sup>(1)</sup> 1,448	1,494	48	2
Financial services*	793	791	8	10
<b>Total non government bonds</b>	<b>2,241</b>	<b>2,285</b>	<b>56</b>	<b>12</b>
<b>Total Government bonds</b>	<b>3,657</b>	<b>3,894</b>	<b>237</b>	<b>-</b>
<b>Total bonds in the held-to-maturity portfolio</b>	<b>5,898</b>	<b>6,179</b>	<b>293</b>	<b>12</b>
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	214	215	4	3
Freddie Mac	343	339	1	5
Fannie Mae	117	115	<sup>(2)</sup> -	2
Other	119	122	3	<sup>(2)</sup> -
<b>Total financial services</b>	<b>793</b>	<b>791</b>	<b>8</b>	<b>10</b>

Footnotes:

(1) Most of this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 182 - 147 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

(2) An amount lower than NIS 1 million.

## APPENDIX NO. 2 – ADDITIONAL DETAILS – SECURITIES PORTFOLIO (CONTINUED)

## 3. TRADING BONDS – DATA ACCORDING TO ECONOMIC SECTORS

## Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	March 31, 2017			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
<b>Non government bonds</b>				
Various sectors	57	57	(1)_	(1)_
Financial services	115	114	(1)_	1
<b>Total non government bonds</b>	<b>172</b>	<b>171</b>	<b>-</b>	<b>1</b>
<b>Total government bonds</b>	<b>2,391</b>	<b>2,391</b>	<b>2</b>	<b>2</b>
<b>Total bonds in the trading portfolio</b>	<b>2,563</b>	<b>2,562</b>	<b>2</b>	<b>3</b>

Footnote:

(1) An amount lower than NIS 1 million.

## APPENDIX NO. 3 – ADDITIONAL DETAILS

## 1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

**Credit risk involved in financial instruments.** The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 11 to the condensed financial statements presents details of operations in derivative instruments – scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

**(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank**

	As of March 31 2017	As of December 31 2016
In NIS million		
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	5	2
With an AA+ rating	3	3
With an AA rating	222	260
With an AA- rating	83	158
With an A+ rating	734	782
With an A rating	139	139
With an A- rating	199	231
With a BBB- rating	15	14
Not rated	24	29
<b>Total against foreign banks</b>	<b>1,424</b>	<b>1,618</b>
<b>Total against Israeli banks</b>	<b>272</b>	<b>546</b>
<b>Total Balance-sheet balances of assets deriving from derivative instruments</b>	<b>1,696</b>	<b>2,164</b>

## APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank**

	As of March 31	As of December 31
	2017	2016
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	2
With an AA+ rating	1	1
With an AA rating	10	11
With an AA- rating	17	17
With an A+ rating	46	20
With an A rating	1	1
With an A- rating	2	3
<b>Total against foreign banks</b>	<b>77</b>	<b>55</b>
<b>Total against Israeli banks</b>	<b>25</b>	<b>187</b>
<b>Total Off Balance-sheet balances of assets deriving from derivative instruments</b>	<b>102</b>	<b>242</b>

## APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

## 1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## (3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

	As of March 31, 2017	As of March 31, 2016	As of December 31, 2016
	in NIS million		
Agriculture	1	1	-
Industry:			
Machines, electrical and electronic equipment	26	64	51
Mining, chemical industry and oil products	69	36	51
Other	29	47	19
Total industry	124	147	121
Construction and real estate:			
Acquisition of real estate for construction	19	17	20
Real estate holdings	46	107	52
Other	27	8	21
Total Construction and real estate	92	132	93
Electricity and water	302	177	231
Commerce	134	101	99
Hotels, hotel services and food	8	4	2
Transportation and storage	48	79	25
Communications and computer services	38	80	27
Financial services:			
Financial institution (excluding banks)	573	298	584
Private customers active on the capital market	299	466	271
Financial holding institutions	132	129	54
Insurance and provident fund services	-	-	-
Total financial services	1,004	893	909
Business and other services	6	9	9
Public and community services	8	12	7
Private individuals - housing loans	-	-	-
Private individuals - other	13	18	6
<b>Total</b>	<b>1,778</b>	<b>1,653</b>	<b>1,529</b>
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received	(240)	(317)	(341)
<b>Total credit risk in respect of derivative instruments</b>	<b>1,538</b>	<b>1,336</b>	<b>1,188</b>

## 3. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

## Details divided by governments with respect to the total securities portfolio

	March 31, 2017		December 31, 2016	
	Book value	Fair value <sup>(1)</sup>	Book value	Fair value <sup>(1)</sup>
	In NIS millions			
Of the Israeli Government	22,221	22,458	22,835	23,086
U.S. government	556	556	664	664
Other governments	264	264	390	390
<b>Total</b>	<b>23,041</b>	<b>23,278</b>	<b>23,889</b>	<b>24,140</b>

Footnote:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

## Appendix no. 4 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries – LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: <ol style="list-style-type: none"> <li>Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202).</li> <li>Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.</li> </ol>
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313.
Special mention debt	A debt that has potential weaknesses for which Management's special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as "impaired", "substandard" or under "special mention".
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank's total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world's banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank's creditors, except for other debt notes of the same class.

## Appendix no. 4 – Glossary (continued)

Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	<p>A financial instrument or other contract that contains three cumulative features:</p> <ol style="list-style-type: none"> <li>A basis and nominal value that determine the settlement amount of the instrument.</li> <li>The net initial investment required is less than that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required).</li> <li>Its terms require or permit net settlement.</li> </ol>
Financial instrument	<p>Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions:</p> <ol style="list-style-type: none"> <li>The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party.</li> <li>The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.</li> </ol>
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk – CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.



## Appendix no. 5 – Index

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## Main Office

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## Subsidiaries In Israel

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### BANKING

Mercantile Discount Bank

### CAPITAL MARKET AND INVESTMENTS

Tafnit Discount Asset Management

Discount Capital (Formerly Israel

Discount Capital Markets & Investments)

Discount Capital Underwriting (Formerly

Discount Underwriting & Issuing)

Discount Manpikim

### CREDIT CARDS COMPANIES

Israel Credit Cards

Diners Club

### TRUST SERVICES

Discount Trust

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## Subsidiary Bank Abroad

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Israel Discount Bank of New York, USA

website: [www.idbbank.com](http://www.idbbank.com)

Head Office: 511 Fifth Avenue, New York

Staten Island, NY Branch:

201 Edward Curry Avenue, Suite 204

Brooklyn, NY Branch:

705 Avenue U

Short Hills, NJ Branch:

150 JFK Parkway

Beverly Hills, CA Branch:

9401 Wilshire Boulevard, Suite 600

Downtown Los Angeles, CA Branch:

888 South Figueroa Street, Suite 550

Aventura, FL Branch:

Harbour Centre, 18851 NE 29th Avenue,  
Suite 600

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office in Long Island