

Q2

CONDENSED FINANCIAL STATEMENTS

30.6.2017

**ISRAEL
DISCOUNT
BANK**

The logo of Israel Discount Bank, featuring the bank's name in bold green capital letters above a green curved line.

BOARD OF DIRECTORS AND MANAGEMENT REPORT

7	Board of Directors and Management Report – List of tables
9	Chapter "A" – General overview, goals and strategy
9	Condensed financial information regarding financial position and operating results
12	Goals and business strategy
13	Chapter "B" – Explication and analysis of the financial results and business position
13	Material trends, occurrences, developments and changes
17	Material developments in income, expenses and other comprehensive income
23	Structure and developments of assets, liabilities, capital and capital adequacy
30	Capital and capital adequacy
33	Dividends distribution
33	Activity of the Group according to principal Segments of Operation – principal quantitative data and main developments
39	Main Investee Companies
43	Chapter "C" – Risks review
43	General description of the risks and manner of management thereof
43	Credit Risks
65	Market Risks
70	Liquidity and financing risks
72	Operational Risks
72	Compliance risks
73	Other risks

73	Chapter "D" – Accounting policy and critical accounting estimates, controls and procedures
73	Critical Accounting Policies and Critical Accounting Estimates
74	Controls and Procedures

INTERNAL CONTROL OVER FINANCIAL REPORTING

77	President & CEO's certification
78	Chief Accountant's certification

CONDENSED FINANCIAL STATEMENTS

81	Review Report of the independent auditors to the shareholders of Israel Discount Bank Ltd.
82	Condensed Consolidated statement of profit and loss
83	Condensed Consolidated statement of comprehensive Income
84	Condensed Consolidated Balance Sheet
86	Condensed Statement of Changes in Equity
88	Condensed Consolidated Statement of Cash Flows
91	Notes to the Condensed Financial Statements

CORPORATE GOVERNANCE, AUDIT, AND ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

203	Corporate Governance and additional details - List of tables
204	Corporate governance and audit
204	Board of Directors and Management
204	The internal audit in the Group
205	Involvement with and Contribution to the Community
206	Additional details regarding the business of the banking corporation and management thereof
206	Discount Group Structure
206	Fixed Assets and Installations
207	The human capital
207	Rating the Liabilities of the Bank and some of its Subsidiaries
208	Activity of the Group according to regulatory operating segments - additional details
213	Credit Card Operations
214	Technological improvements and innovation
215	Main developments in the Israeli economy and around the world in the first half of 2017
219	Legislation and supervision
223	Legal Proceedings
224	Proceedings regarding Authorities

APPENDICES TO THE QUARTERLY REPORT

227	Appendices - List of tables
228	Appendix no. 1 - Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses
236	Appendix no. 2 - Additional details - securities portfolio
238	Appendix no. 3 - Additional details
241	Appendix no. 4 - Glossary
243	Appendix no. 5 - Index

BOARD OF DIRECTORS AND MANAGEMENT REPORT

7	Board of Directors and Management Report - List of tables	39	Main Investee Companies
9	Chapter "A" - General overview, goals and strategy	43	Chapter "C" - Risks review
9	Condensed financial information regarding financial position and operating results	43	General description of the risks and manner of management thereof
12	Goals and business strategy	43	Credit Risks
13	Chapter "B" - Explication and analysis of the financial results and business position	65	Market Risks
13	Material trends, occurrences, developments and changes	70	Liquidity and financing risks
17	Material developments in income, expenses and other comprehensive income	72	Operational Risks
23	Structure and developments of assets, liabilities, capital and capital adequacy	72	Compliance risks
30	Capital and capital adequacy	73	Other risks
33	Activity of the Group according to principal Segments of Operation - principal quantitative data and main developments	73	Chapter "D" - Accounting policy and critical accounting estimates, controls and procedures
		73	Critical Accounting Policies and Critical Accounting Estimates
		74	Controls and Procedures

Board of Directors and Management Report - List of tables	Page No.
Profitability for 6 months	9
Profitability for 6 months - disregarding certain components	9
Profitability Quarter	10
Profitability Quarter - disregarding certain components	10
Balance sheet	11
Ratio of capital to risk assets	11
Financial ratios	11
Market share	11
Development of the Discount share	12
Developments in certain profit and loss statement items in the first half of 2017, compared with the first half of 2016	18
Composition of the net financing income	20
Analysis of the total net financing income	20
Development of the interest income, net by regulatory operating segments	21
Development in the credit loss expenses	21
Quarterly development in the credit loss expenses	22
Distribution of the commissions	22
Quarterly development of salaries and related expenses, with details of the impact of certain components	22
Condensed statement of comprehensive income	23
Developments in the principal balance sheet items	23
Data on the composition of net credit to the public by linkage segments	24
Review of developments in the balance of net credit to the public, by regulatory operating segments	24
Developments of total credit to the public risk, by main economic sectors	25
Overall credit risk and the rate of problematic credit risk in principal economic sectors	25
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	26
Composition of the securities portfolio by linkage segments	27
Composition of investments in securities according to portfolio classification in accordance with directives of the Supervisor of Banks	28
Data on the composition of deposits from the public by linkage segments	29
Review of developments in the balance of net credit to the public, by regulatory operating segments	29
Components of the regulatory capital	32
Principal data regarding the household segment (Domestic operations)	34
Principal data regarding the Private Banking segment (Domestic operations)	35
Principal data regarding the Small and minute businesses segment (Domestic operations)	36
Principal data regarding the Medium businesses segment (Domestic operations)	36
Principal data regarding the Large businesses segment (Domestic operations)	37
Principal data regarding the Institutional bodies segment (Domestic operations)	37
Principal data regarding the Financial management segment (Domestic operations)	38
Principal data regarding the International operations segment	38
Discount Bancorp, Inc. – principal data	39
Mercantile Discount Bank – principal data	40
Israel Credit Cards – principal data	41
Discount Capital – principal data	42
Problematic credit risk and non performing assets	43
Changes in balances of impaired debts	44
Several financial ratios used to evaluate the quality of the credit portfolio	44

Board of Directors and Management Report - List of tables (continued)	Page No.
Total credit risk classified by economic sectors on a consolidated basis	45
Exposure to foreign countries - Consolidated	52
Details of present credit exposure to foreign financial institutions on a consolidated basis	57
Certain risk characteristics of the Group's housing loans portfolio	58
Amount of loans and average financing ratios	58
Distribution of housing credit balances according to size of credit to borrowers	58
Volume of problematic debts in housing credit	59
Distribution of housing credit granted, according to financing ratios and as a ratio of credit granted	59
Data regarding developments in housing credit balances according to linkage segments	59
Composition of loans granted for housing purposes, divided by the ratio of repayments to earnings	60
Portfolio of loans to private individuals (excluding housing loans)	61
Balance sheet credit risk in respect of private individuals (excluding housing loans), by classes of interest	61
Development of problematic credit risk in respect of private individuals (consolidated; domestic operations; excluding housing loans)	62
Total credit and percentage of problematic credit in the construction and real estate sector	63
The Bank's exposure to leveraged finance according to economic sector of the acquired corporation	64
Exposure to changes in interest rates – Consolidated	66
Investments in shares	70
Capital requirement regarding share position	70
Sources for the change in the monetary base	71
Deposits from the public	72
Deposits from Banks	72
Adjustments made to assets and liabilities in respect of derivative instruments	74

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

At the meeting of the Board of Directors held on August 14, 2017, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for June 30, 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 6 months

	For the six months ended June 30		Change in %
	2017	2016	
	In NIS millions		
Interest income, net	2,471	⁽³⁾ 2,204	12.1
Credit loss expenses	356	104	242.3
Profit before taxes	957	1,089	(12.1)
Provision for taxes on profit	345	⁽³⁾ 447	(22.8)
Profit after taxes	612	642	(4.7)
Net Profit Attributed to the Bank's Shareholders	575	572	0.5
Net Profit Attributed to the Bank's Shareholders - disregarding certain components (see below)	585	470	24.5
Comprehensive income, attributed to the Bank's shareholders	317	478	-
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	⁽²⁾ 0.50	⁽²⁾ 0.54	
The ratio of Profit before taxes to total equity in % ⁽¹⁾	13.2	16.7	
The ratio of Profit after taxes to total equity in % ⁽¹⁾	8.3	9.7	
Return on equity attributed to the Bank's shareholders, in % ⁽¹⁾	8.0	8.8	
Return on equity attributed to the Bank's shareholders - disregarding certain components (see below), in % ⁽¹⁾	8.1	7.2	

Footnotes:

(1) On an annual basis.

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

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

Profitability for 6 months - disregarding certain components

	For the six months ended June 30		Change in %
	2017	2016	
	in NIS millions		
Net Profit Attributed to the Bank's Shareholders - as reported	575	572	0.5
Disregarding ⁽¹⁾ :			
Gains on the sale of rights in Visa Europe	-	(178)	
Effect of settlement	10	-	
Expense in ICC for arrangement replacing criminal proceedings	-	26	
Effect of the change in the tax rate	-	50	
Net Profit Attributed to the Bank's Shareholders - disregarding the above components	585	470	24.5
Return on equity attributed to the Bank's shareholders, in % - disregarding the above components	8.1	7.2	

Footnote:

(1) See below "Details regarding eliminated components".

Profitability Quarter

	2017		2016	Q2 2017 compared to	
	Q2	Q1	Q2	Q1 2017	Q2 2016
	In NIS millions			in %	
Interest income, net	1,304	1,167	1,155	11.7	12.9
Credit loss expenses	211	145	58	45.5	263.8
Profit before taxes	454	503	721	(9.7)	(37.0)
Provision for taxes on profit	163	182	272	(10.4)	(40.1)
Profit after taxes	291	321	449	(9.3)	(35.2)
Net Profit Attributed to the Bank's Shareholders	272	303	393	(10.2)	(30.8)
Net Profit Attributed to the Bank's Shareholders - disregarding certain components (see below)	276	309	241	(10.7)	14.5
Comprehensive income, attributed to the Bank's shareholders	188	129	496	-	-
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	⁽²⁾ 0.23	⁽²⁾ 0.27	⁽²⁾ 0.37		
The ratio of Profit before taxes to total equity in % ⁽¹⁾	12.5	14.3	23.0		
The ratio of Profit after taxes to total equity in % ⁽¹⁾	7.9	8.9	13.9		
Return on equity attributed to the Bank's shareholders, in % ⁽¹⁾	7.5	8.6	12.3		
Return on equity attributed to the Bank's shareholders - disregarding certain components (see below), in % ⁽¹⁾	7.6	8.8	7.4		

Footnotes:

(1) On an annual basis.

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

Profitability Quarter - disregarding certain components

	2017		2016	Q2 2017 compared to	
	Q2	Q1	Q2	Q1 2017	Q2 2016
	In NIS millions			in %	
Net income attributed to the Bank's shareholders - as reported	272	303	393	(10.2)	(30.8)
Disregarding ⁽¹⁾ :					
Gains on the sale of rights in Visa Europe	-	-	(178)		
Effect of settlement	4	6	-		
Expense in ICC for arrangement replacing criminal proceedings	-	-	26		
Net income attributed to the Bank's shareholders - disregarding the above components	276	309	241	(10.7)	14.5
Return on equity attributed to the Bank's shareholders, in % - disregarding the above components	7.6	8.8	7.4		

Footnote:

(1) See below "Details regarding eliminated components".

DETAILS REGARDING ELIMINATED COMPONENTS

Gains on the sale of rights in Visa Europe. Profit recognized by the Bank and ICC on the sale of rights in VISA Europe, following the consummation of the transaction by which VISA Inc. acquired VISA Europe (see the report for the second quarter of 2016, pp. 20 and 212).

Effect of settlement. Acceleration of the amortization of "Actuarial profits and losses" following the implementation of the 2016 Efficiency Plan (see the 2016 Annual Report, Note 23 J, pp. 214-215).

Expense in ICC in respect of an arrangement in view of criminal proceedings. A provision recognized in the second quarter of 2016, in respect of the announcement made by the State Prosecution, according to which, it considers the serving of an indictment against ICC (see the report for the second quarter of 2016, pp. 18-19).

Effect of change in the tax rate. The reduction in the balances of deferred taxes of the Bank and of its principal subsidiaries in Israel (reduction in profit) following the lowering of the corporation tax rate (see the report for the second quarter of 2016, p. 214).

Balance sheet

	June 30, 2017	June 30, 2016	December 31, 2016	Change in % compared to	
				June 30, 2016	December 31, 2016
	In NIS millions				
Total assets	218,393	208,882	219,577	4.6	(0.5)
Credit to the public, net	144,217	133,092	140,760	8.4	2.5
Securities	34,828	38,053	38,818	(8.5)	(10.3)
Deposits from the public	171,598	⁽¹⁾ 162,155	172,318	5.8	(0.4)
Equity attributed to the Bank's shareholders	14,972	13,769	14,512	8.7	3.2
Total equity	15,418	14,181	14,936	8.7	3.2

Footnote:

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

Ratio of capital to risk assets

Basel III	June 30, 2017	June 30, 2016	December 31, 2016
	in %		
Ratio of common equity tier 1 to risk assets	9.8	9.5	9.8
Ratio of total capital to risk assets	13.9	13.8	13.8

Financial ratios

	June 30, 2017	June 30, 2016	December 31, 2016
	in %		
Ratio of total equity to total assets	7.1	6.8	6.8
Ratio of credit loss expenses to the average balance of credit to the public	0.49	0.16	0.34
Ratio of credit to the public, net to total assets	66.0	63.7	64.1
Ratio of credit to the public, net to deposits from the public	84.0	82.1	81.7
Ratio of deposits from the public to total assets	78.6	77.6	78.5
Ratio of total non-interest income to operating and other expenses	59.1	64.9	59.2
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	59.4	53.2	55.3
Ratio of operating and other expenses to total income	68.3	70.7	72.7
Ratio of operating and other expenses to total income – disregarding certain components (see above)	67.9	76.5	72.9
Risk assets adjusted return ⁽¹⁾	8.2	8.8	6.7
Risk assets adjusted return ⁽¹⁾ – disregarding certain components (see above)	8.4	7.2	7.2
Leverage ratio ⁽²⁾	6.7	6.5	6.6
Liquidity coverage ratio ⁽²⁾	137.3	133.9	146.5

Footnotes:

(1) Return on equity computed on the average balance of risk assets in accordance with the minimal capital target determined by the Bank for the end of the relevant period (30.6.2017 - 9.18%, 31.12.2016 - 9.15%, 30.6.2016 - 9.10%).

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

MARKET SHARE

Based on data relating to the banking industry as of March 31, 2017, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows

	March 31, 2017	December 31, 2016
	In %	
Total assets	15.0	15.0
Credit to the public, net	15.4	15.2
Deposits from the public	15.1	15.1
Interest income, net	17.4	17.4
Total non-interest income	20.4	18.4

Development of the Discount share

	Closing price at end of the trading day			Rate of change in the first half of 2017 in %
	August 9, 2017	June 30, 2017	December 31, 2016	
Discount share	923	920	801	14.9
The TA 5 Banks index	1,747.74	1,709.87	1,578.90	8.3
The TA 35 index	1,376.87	1,433.63	1,470.78	(2.5)
Discount market value (in NIS billions)	10.74	10.71	9.07	18.1

A SUMMARY DESCRIPTION OF THE PRINCIPAL RISKS

For a summarized description of the principal risks, see the 2016 annual report (pp. 16-17).

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

GOALS AND BUSINESS STRATEGY

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 ICC;
- 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 second 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 half 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 9.8% 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 half 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.**

The Bank is presently implementing a move for the formation of the Bank's values and rules of conduct (code of ethics), in which approx. 400 managers are participating, and in continuation thereof all Bank employees would be integrated into this move. Following the formation of the values and rules of conduct, a process of absorption would take place 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 and conduct.

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 half of 2017.

Growth. The first half of the year 2017 has been marked by the continuation of the global growth expansion. In Israel, the growth data for the first quarter¹, the tax collection and the stabilization of the labor market at record levels, indicate that in the first half of the year, the local economy is expected to maintain the growth rate that had marked the recent quarters.

Exchange rates. During the first half 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 7.3% and 2.5% 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 half of 2017, totaling at a negative rate of 0.2% in the period of twelve months ended in June 2017. This, compared to a negative inflation of 0.8% in the twelve months ended in June 2016. Most of the rise in the inflationary rate was due 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 half 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. Also in Israel, the share indices presented positive results, except for the TA 35 Index. This was due to the continuous weakness of the pharmaceutical companies.

The third quarter of 2017. In the United States, the rate of the rise in the interest rate, already grossed-up by the markets, is lower than the forecasts of the FED, and a moderation accrued in the grossed-up interest rate outline. The Governor of the ECB noted positively the swift growth in the first half of the year, although he emphasized that the rate of inflation in the Eurozone is not yet sufficient in order to consider a reduction in the expansionary monetary policy. These changes led to a reduction in returns in the Eurozone and in the U.S., alongside fluctuations and the appreciation of the Euro (and devaluation of the U.S. dollar) on the foreign currency markets.

A reduction in returns is noted in the bond markets in Israel, in line with the global trend, with a devaluation of the exchange rate. A mixed trend was recorded in the equities markets, with new high records in the U.S., alongside a decrease in the DAX Index and in the TA 35 Index.

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 below "Main developments in Israel and around the world in the first half 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).

¹ The growth figures in Israel for the second 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 June 30, 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" in the 2016 Annual Report (pp. 396-408) and in this report.

Parliamentary Inquiry Committee regarding the Conduct of the Financial System with respect to Credit Arrangements for Large Corporate Borrowers. On July 5, 2017, the Plenum of the Knesset has approved the decision of the Knesset Committee in the matter of the formation of a Parliamentary Inquiry Committee. The Committee will investigate the conduct of banks and institutional bodies in the matter of the granting of credit to large corporate borrowers as from the year 2003 and thereafter, as well as the conduct of the central supervisory and enforcement entities.

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 June 13, 2017, a Directive which widens the definition of efficiency and encourages banks to study also possibilities for the reduction in real estate and maintenance costs of Head Office and Management units, including by a re-examination of their geographical location.

The Supervisor of Banks would grant to a banking corporation relief in the matter of capital adequacy, in respect of the implementation of an efficiency plan as regards the real estate field, subject to all the terms stated in the instruction.

The relief regarding attainment of the capital adequacy goals, would be computed in accordance with the amount of capital gains earned on the sale of a real estate asset but not yet recognized in profit and loss, and accordingly not yet recognized in the regulatory capital, and the cumulative amount of direct costs recognized by the banking corporation in respect of the efficiency plan.

The relief stated in the instruction shall apply to efficiency plans approved until June 30, 2018. Furthermore, the Supervisor of Banks extended,

within the framework of the document, the period entitling to the relief stated in the letter dated January 12, 2016, also to efficiency plans that would be approved until June 30, 2018.

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 and six months periods ended on June 30, 2017, the independent auditors drew attention to Note 10 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

PROFIT AND PROFITABILITY

Net profit attributed to the Bank's shareholders for the first half of 2017 totalled NIS 575 million, compared with NIS 572 million in the corresponding period last year, an increase of 0.50%. With the elimination of the effect of certain components (see "Principal data" above), the profit for the first half of 2017, would have amounted to NIS 585 million, as compared to NIS 470 million in the corresponding period last year, an increase at the rate of 24.5%.

Return on equity net attributed to the Bank's shareholders for the first half of 2017 reached a rate of 8.0%, on an annual basis, compared with a rate of 8.8% for the corresponding period last year, and 6.6% for all of 2016. With the elimination of the effect of certain components (see "Principal data" above), the return in the first half of 2017, would have reached an annualized rate of 8.1%, as compared to 7.2% in the corresponding period last year.

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

- a. An increase in interest income, net, in an amount of NIS 267 million (12.1%) mainly affected by the growth in the credit portfolio.
- b. An increase in credit loss expenses, of NIS 252 million (242.3%) mainly a growth in allowance on a group basis.
- c. A decrease in the total non-interest income, of NIS 198 million (10.6%), affected by a decrease of NIS 220 million in non-interest financing income (42.0%). The decrease was mainly affected by gains from the sale of rights in VISA Europe in the amount of NIS 360 million, which was recognized in the first half of 2016, and was partly offset by an increase of NIS 109 million in income from the realization of investments in Discount Capital and a decrease in income stemming from the discontinuation of the Bank's operations in Switzerland. An increase of NIS 70 million in commissions (5.6%), mainly an increase in credit card commissions and credit handling commissions, and a decrease of NIS 48 million in other income, mostly from the realization of assets (53.9%).
- d. A decrease of NIS 51 million in operating and other expenses (1.8%), affected, mostly from the decrease in payroll and related expenses in the amount of NIS 47 million (2.7%), by an increase of NIS 13 million in other expenses (2.1%) and from a decrease in the amount of NIS 17 million in maintenance and depreciation expenses of buildings and equipment (3.1%).
- e. Tax provision of NIS 345 million on earnings in the first half of 2017, compared with NIS 447 million in the corresponding period last year. The provision for taxes in the first half of 2016 was impacted by the one-time effect of the reduction in the corporate tax rate, an expense of NIS 50 million (see Note 8 K to the financial statements as of December 31, 2016, p. 164).

Net Profit Attributed to the Bank's Shareholders in the second quarter of 2017 amounted to NIS 272 million, compared with NIS 303 million in the first quarter of the year, a decrease of 10.2%, and compared with NIS 393 million in the second quarter of 2016, a decrease of 30.8%. With the elimination of certain components, see table above, the net profit in the second quarter of 2017 would have amounted to NIS 276 million, compared with a net profit of NIS 241 million in the second quarter of 2016, an increase of 14.5% and compared with NIS 309 million in the first quarter of 2017, a decrease of 10.7%.

The major factors affecting the business results of the Group in the second quarter of 2017, compared with the previous quarter,

were:

- An increase in interest income, net, in an amount of NIS 137 million (11.7%).
- An increase in credit loss expenses, in an amount of NIS 66 million (45.5%).
- A decrease of NIS 154 million (16.9%) in non-interest income, which was mainly affected by a decrease in gains from the sale of available-for-sale bonds.
- A decrease in operating and other expenses, in an amount of NIS 34 million (2.4%), which was effected mostly by a decrease of 45 million in salaries and related expenses (5.2%), which was partly offset by an increase in the amount of NIS 15 million in other expenses (4.9%).
- In the second quarter of 2017, provision for taxes on the profit was recorded, in the amount of NIS 163 million, compared with NIS 182 million in the previous quarter.

DEVELOPMENTS IN INCOME AND EXPENSES

Developments in certain profit and loss statement items in the first half of 2017, compared with the first half of 2016

	For the six months ended June 30,		Change in %
	2017	2016	
	In NIS millions		
Interest income	3,140	⁽¹⁾ 2,712	15.8
Interest expenses	669	508	31.7
Interest income, net	2,471	2,204	12.1
Credit loss expenses	356	104	242.3
Net interest income after credit loss expenses	2,115	2,100	0.7
Non-interest Income			
Non-interest financing income	304	524	(42.0)
Commissions	1,327	1,257	5.6
Other income	41	89	(53.9)
Total non-interest income	1,672	1,870	(10.6)
Operating and other Expenses			
Salaries and related expenses	1,673	1,720	(2.7)
Maintenance and depreciation of buildings and equipment	524	541	(3.1)
Other expenses	633	620	2.1
Total operating and other expenses	2,830	2,881	(1.8)
Profit before taxes	957	1,089	(12.1)
Provision for taxes on profit	345	⁽¹⁾ 447	(22.8)
Profit after taxes	612	642	(4.7)
Bank's share in loss of affiliated companies, net of tax effect	(7)	(3)	133.3
Net profit attributed to the non-controlling rights holders in consolidated companies	(30)	(67)	(55.2)
Net Profit attributed to Bank's shareholders	575	572	0.5
Return on equity attributed to the Bank's shareholders, in % ⁽²⁾	8.0	8.8	
Net Profit attributed to Bank's shareholders - disregarding certain components (see above)	585	470	24.5
Return on equity attributed to the Bank's shareholders, in % ⁽²⁾ - disregarding certain components (see above)	8.1	7.2	

Footnotes:

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

(2) On an annual basis.

For details regarding the profitability in the said reporting periods, with the elimination of certain components, see above in "Principal data" under "Chapter "A" – General review, goals and strategy".

Developments in certain profit and loss statement items in the second quarter of 2017, compared with the first quarter of 2017 and compared with the second quarter of 2016

	2017		2016 Q2 2017 compared to		
	Q2	Q1	Q2	Q1 2017	Q2 2016
	In NIS millions		in %		
Interest income	1,700	1,440	1,494	18.1	13.8
Interest expenses	396	273	339	45.1	16.8
Interest income, net	1,304	1,167	1,155	11.7	12.9
Credit loss expenses	211	145	58	45.5	263.8
Net interest income after credit loss expenses	1,093	1,022	1,097	6.9	(0.4)
Non-interest Income					
Non-interest financing income	79	225	428	(64.9)	(81.5)
Commissions	661	666	633	(0.8)	4.4
Other income	19	22	27	(13.6)	(29.6)
Total non-interest income	759	913	1,088	(16.9)	(30.2)
Operating and other Expenses					
Salaries and related expenses	814	859	861	(5.2)	(5.5)
Maintenance and depreciation of buildings and equipment	260	264	268	(1.5)	(3.0)
Other expenses	324	309	335	4.9	(3.3)
Total operating and other expenses	1,398	1,432	1,464	(2.4)	(4.5)
Profit before taxes	454	503	721	(9.7)	(37.0)
Provision for taxes on profit	163	182	272	(10.4)	(40.1)
Profit after taxes	291	321	449	(9.3)	(35.2)
Bank's share in loss of affiliated companies, net of tax effect	(3)	(4)	(2)	(25.0)	50.0
Net profit attributed to the non-controlling rights holders in consolidated companies	(16)	(14)	(54)	14.3	(70.4)
Net Profit attributed to Bank's shareholders	272	303	393	(10.2)	(30.8)
Return on equity attributed to the Bank's shareholders, in % ⁽¹⁾	7.5	8.6	12.3		
Net Profit attributed to Bank's shareholders - disregarding certain components (see above)	276	309	241	(10.7)	14.5
Return on equity attributed to the Bank's shareholders, in % ⁽¹⁾ - disregarding certain components (see above)	7.6	8.8	7.4		

Footnote:

(1) On an annual basis.

For details regarding the profitability in the said reporting periods, with the elimination of certain components, see above in "Principal data" under "Chapter "A" – General review, goals and strategy".

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

Interest income, net. In the first half of 2017, interest income, net, amounted to NIS 2,471 million compared with NIS 2,204 million in the corresponding period last year, an increase of 12.1%. The rise in the interest income, net, in the amount of NIS 267 million, is explained by a positive price impact of NIS 69 million, and a positive quantitative effect in the amount of NIS 198 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 2.31% in the first half of 2017, compared with 2.21% in the corresponding period last year.

The average balance of interest bearing assets has increased by a rate of approx. 6.2%, from an amount of NIS 186,925 million to NIS 198,489 million, and the average balance of interest bearing liabilities increased by a rate of approx. 6.9%, from an amount of NIS 142,564 million to NIS 152,408 million.

Non-interest financing income. In the first half of 2017, non-interest financing income amounted to NIS 304 million, compared to NIS 524 million in the corresponding period last year, a decrease of 42.0%. The decline in non-interest financing income stems mostly from a decline in

gains on investment in shares (see Note 3 to the condensed financial statements), resulting from the realization of rights in VISA Europe in the corresponding period last year. With the elimination of the said realization, non-interest financing income rose by 85.4% as compared with the corresponding period last year.

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			
	Q2	Q1	Q4	Q3	Q2	Q1
in NIS millions						
Interest income	1,700	1,440	⁽¹⁾ 1,428	1,519	1,494	⁽¹⁾ 1,218
Interest expenses	396	273	262	332	339	169
Interest income, net	1,304	1,167	1,166	1,187	1,155	1,049
Non-interest financing income	79	225	179	51	428	96
Total net financing income	1,383	1,392	1,345	1,238	1,583	1,145

Analysis of the total net financing income

	2017		2016			
	Q2	Q1	Q4	Q3	Q2	Q1
in NIS millions						
Income from current operations	1,290	1,190	⁽¹⁾ 1,188	1,187	1,147	⁽¹⁾ 1,074
Net profit (loss) from realization and adjustment to fair value of bonds	29	95	(20)	43	43	75
Profit from investments in shares	66	79	54	3	373	14
Adjustment to fair value of derivative instruments	(7)	14	77	(30)	(18)	(39)
Exchange rate differences, options and other derivatives	5	13	33	35	37	21
Net profit on the sale of loans	–	1	13	–	1	–
Total net financing income	1,383	1,392	1,345	1,238	1,583	1,145

Footnote:

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

Financing income, net, amounted to NIS 2,775 million in the first half of 2017, compared to NIS 2,728 million in the corresponding period last year, an increase of 1.7%. The growth in financing income stemmed, mostly, from an increase of NIS 259 million in profit from current operations, from an increase of NIS 64 million in adjustments to fair value of derivative instruments, which were offset by a decrease in the amount of NIS 242 million in gains on investment in shares, and from a decrease of NIS 40 million in gains on exchange rates, options and other derivatives.

The increase on profit from current operations includes the effect of changes in the CPI, in the amount of NIS 27 million: income of NIS 24 million in the first half of 2017, and an expense of NIS 3 million in the corresponding period last year.

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 1.23% in the first half of 2017, compared with 1.11% in the corresponding period last year.

The net financing profit amounted in the second quarter of 2017 to NIS 1,383 million, as compared with NIS 1,583 million, in the corresponding quarter last year, a decrease of 12.6%, and as compared with NIS 1,392 million, in the first quarter of 2017, a decrease of 0.6%.

The effect of changes in the CPI amounted to income of NIS 31 million in the second quarter of 2017, compared to income of NIS 17 million in the corresponding quarter last year, and an expense of NIS 7 million in the first quarter of 2017.

The interest margin, after elimination of the effect of derivatives, reached a rate of 2.43% in the second quarter of 2017, as compared to 2.28% in the corresponding quarter last year and compared to 2.22% in the first quarter of 2017.

The interest margin from current operations, including ALM derivatives, reached a rate of 1.27% in the second quarter of 2017, as compared with 1.11% in the corresponding quarter last year, and compared with 1.20% in the first quarter of 2017.

Development of the interest income, net by regulatory operating segments

	For the three months ended June 30,		Change in %	For the six months ended June 30,		Change in %
	2017	2016		2017	2016	
	In NIS millions			In NIS millions		
Domestic operations:						
Households	388	335	15.8	752	643	17.0
Private banking	15	11	36.4	28	25	12.0
Small and minute businesses	363	328	10.7	709	629	12.7
Medium businesses	75	73	2.7	141	147	(4.1)
Large businesses	124	110	12.7	239	233	2.6
Institutional bodies	10	9	11.1	17	17	-
Financial management	142	105	35.2	212	⁽¹⁾ 139	52.5
Total Domestic operations	1,117	971	15.0	2,098	1,833	14.5
Total International operations	187	184	1.6	373	371	0.5
Total	1,304	1,155	12.9	2,471	2,204	12.1

Footnote:

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

Credit loss expenses. In the first half of 2017 credit loss expenses in the amount of 356 million were recorded, compared with expenses of NIS 104 million in the corresponding period last year, an increase of 242.3%. The credit loss expense for the first half 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 expenses on a specific basis, which were partly offset by collections.

The low expense amount in the first half of 2016, stemmed from the 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 Six months ended June 30,		For the year ended December 31,
	2017	2016	2016
	In NIS millions		
On a specific basis	54	(33)	42
On a group basis	302	137	427
Total	356	104	469
Rate of credit loss expenses to the average balance of credit to the public ⁽¹⁾ :			
Cumulative rate since the beginning of the year	0.49%	0.16%	0.34%

Footnote:

(1) On an annual basis.

Quarterly development in the credit loss expenses

	2017			2016		
	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions					
On a specific basis	66	(12)	77	(2)	(24)	(9)
On a group basis	145	157	147	143	82	55
Total	211	145	224	141	58	46
Rate of credit loss expenses to the average balance of credit to the public⁽¹⁾:						
The rate in the quarter	0.58%	0.40%	0.66%	0.42%	0.18%	0.14%
Cumulative rate since the beginning of the year	0.49%	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 half of 2017, amounted to NIS 1,327 million, compared to NIS 1,257 million in the corresponding period last year, an increase of 5.6%.

Distribution of the commissions

	For the six months ended June 30		
	2017	2016	Change
	in NIS millions		in %
Account Management fees	241	242	(0.4)
Credit cards	534	496	7.7
Operations in securities and in certain derivative instruments	165	151	9.3
Commissions from the distribution of financial products	70	67	4.5
Handling credit	78	70	11.4
Conversion differences	68	67	1.5
Foreign trade services	27	24	12.5
Net income from credit portfolio services	5	6	(16.7)
Commissions on financing activities	98	88	11.4
Other commissions	41	46	(10.9)
Total commissions	1,327	1,257	5.6

Salaries and related expenses amounted to NIS 1,673 million in the first half of 2017, compared with NIS 1,720 million in the corresponding period last year, a decrease of 2.7%. Eliminating the effect of certain components as detailed below, a decrease of 1.8% would have been recorded.

Quarterly development of salaries and related expenses, with details of the impact of certain components

	2017			2016		
	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions					
Salaries and Related Expenses - as reported	814	859	866	830	861	859
Awards	(40)	(41)	(18)	(28)	(45)	(23)
Effect of settlement ⁽¹⁾	(6)	(9)	(125)	(16)	-	-
Reversal of excess provisions	-	-	(2)57	-	-	-
Salaries and Related Expenses - Disregarding certain components	768	809	723	786	816	836

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, 2017 (page 214-215).

(2) Mostly actuarial components.

DEVELOPMENTS IN THE COMPREHENSIVE INCOME

Condensed statement of comprehensive income

	For the six months ended June 30,		Change in %
	2017	2016	
	in NIS millions		
Net Profit attributed to the Bank's shareholders	575	572	0.5
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive loss, before taxes ⁽¹⁾	(227)	(108)	
Effect of attributed taxes	(31)	14	
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	(258)	(94)	
Comprehensive income, attributed to the Bank's shareholders	317	478	(33.7)

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 in the first half of 2017, 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. The comprehensive income in the first half of 2016, was mainly impacted by an actuarial loss, by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate and from the rise in value of the available-for-sale securities portfolio.

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

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at June 30, 2017, amounted to NIS 218,393 million, compared with NIS 219,577 million at the end of 2016, a decrease of 0.5%.

Developments in the principal balance sheet items

	December		Rate of change in %
	June 30, 2017	31, 2016	
	in NIS millions		
Assets			
Cash and deposits with banks	28,802	29,311	(1.7)
Securities	34,828	38,818	(10.3)
Credit to the public, net	144,217	140,760	2.5
Liabilities			
Deposits from the public	171,598	172,318	(0.4)
Deposits from banks	4,506	5,342	(15.6)
Securities loaned or sold under repurchase arrangements	3,116	3,543	(12.1)
Subordinated debt notes	8,696	8,498	2.3
Equity attributed to the Bank's shareholders	14,972	14,512	3.2
Total equity	15,418	14,936	3.2

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

CREDIT TO THE PUBLIC

General. Credit to the public, net, (after provision for credit losses) as at June 30, 2017 totaled NIS 144,217 million, compared with NIS 140,760 million at the end of 2016, an increase of 2.5%.

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

	June 30, 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	102,210	70.9	96,200	68.4	6.2
CPI-linked shekels	15,827	11.0	15,243	10.8	3.8
Foreign currency and foreign currency-linked shekels	26,180	18.1	29,317	20.8	(10.7)
Total	144,217	100.0	140,760	100.0	2.5

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 10.7% compared with December 31, 2016. In U.S. dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US\$136 million, a decrease of 1.8% 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 4.3% 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

	June 30, 2017	December 31, 2016	Change in %
	In NIS millions		
Domestic operations:			
Households*	54,183	51,488	5.2
Private banking*	249	214	16.4
Small and minute businesses	36,546	34,219	6.8
Medium businesses	11,932	12,398	(3.8)
Large businesses	22,310	21,438	4.1
Institutional bodies	961	1,047	(8.2)
Total Domestic operations	126,181	120,804	4.5
Total International operations	20,111	22,100	(9.0)
Total credit to the public	146,292	142,904	2.4
Credit loss expenses	(2,075)	(2,144)	(3.2)
Total credit to the public, net	144,217	140,760	2.5
*Of which - Mortgages	27,354	25,764	6.2

The credit to the retail segment (households and small and minute businesses), the growth therein comprises a focus point in the strategic plan, amounted at June 30, 2017 to NIS 90,729 million, an increase of NIS 5,022 million compared with December 31, 2016, which reflects a growth of 5.9% (an increase of NIS 9,955 million compared with June 30, 2016, expressing a growth of 12.3%).

Housing loans amounted at June 30, 2017 to NIS 27,354 million, an increase of NIS 1,590 million compared to December 31, 2016, reflecting a growth of 6.2% (an increase of NIS 3,846 million compared with June 30, 2016, reflecting a growth of 16.4%).

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

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

Economic Sectors	June 30, 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	20,183	8.8	19,648	8.7	2.7
Construction and real estate - construction	24,815	10.8	22,535	10.0	10.1
Construction and real estate - real estate activity	19,530	8.5	19,511	8.7	0.1
Commerce	26,362	11.5	26,650	11.8	(1.1)
Financial services	19,224	8.4	21,063	9.4	(8.7)
Private individuals - housing loans	29,452	12.9	27,761	12.3	6.1
Private individuals - other	55,002	24.0	53,382	23.7	3.0
Other sectors	34,592	15.1	34,649	15.4	(0.2)
Total overall credit to the public risk	229,160	100.0	225,199	100.0	1.8

The data presented above indicates that in the first half of 2017, the overall risk regarding credit to the public increased by 1.8% 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 commerce 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 June 30, 2017 to approx. NIS 2,539 million, compared to NIS 2,943 million at December 31, 2016, a decrease of 13.7%. The decrease stems mostly from accounting write-offs and collections.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at June 30, 2017 to approx. NIS 1,992 million, compared to NIS 2,394 million at December 31, 2016, a decrease at a rate of 16.8%.

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

Economic Sectors	June 30, 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	20,183	628	3.1	19,648	657	3.3
Construction and real estate - construction	24,815	426	1.7	22,535	483	2.1
Construction and real estate - real estate activity	19,530	547	2.8	19,511	451	2.3
Commerce	26,362	743	2.8	26,650	1,105	4.1
Financial services	19,224	735	3.8	21,063	766	3.6
Private individuals - housing loans	29,452	310	1.1	27,761	328	1.2
Private individuals - other	55,002	468	0.9	53,382	440	0.8
Other Sectors	34,592	990	2.9	34,649	1,341	3.9
Total Public	229,160	4,847	2.1	225,199	5,571	2.5
Banks	7,754	32	0.4	9,189	93	1.0
Governments	25,373	-	-	26,575	-	-
Total	262,287	4,879	1.9	260,963	5,664	2.2

In the first half 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 industry, construction and real estate, commerce and other sectors. On the other hand, there was a rise in the percentage of the problematic debt in the construction and real estate - real estate activity and financial services sectors.

THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,075 million as of June 30, 2017. The balance of this allowance constitutes 1.42% 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 226 million on June 30, 2017, compared to NIS 389 million on December 31, 2016, a decrease of 42%, 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 June 30, 2017 to NIS 1,678 million, compared to NIS 1,587 million as of December 31, 2016, comprising an increase in the current allowance in the amount of NIS 91 million, a rate of 5.7%.

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

	For the Six months ended June 30			
	2017		2016	
	Credit loss expense In NIS millions	Rate of expense (expense reversal) %	Credit loss expense In NIS millions	Rate of expense (expense reversal) %
sectors				
Agriculture	4	0.8	(5)	(1.1)
Industry	(27)	(0.5)	(37)	(0.6)
Construction and real estate - construction	(16)	(0.3)	(14)	(0.3)
Construction and real estate - real estate activity	13	0.2	(23)	(0.3)
Electricity and water	4	0.4	1	0.1
Commerce	93	0.9	52	0.5
Hotels, hotel services and food	(2)	(0.1)	18	1.4
Transportation and storage	9	0.3	5	0.2
Communications and computer services	136	11.4	(2)	(0.2)
Financial services	(21)	(0.5)	11	0.2
Other business services	14	0.5	1	0.0
Public and community services	6	0.3	9	0.4
Private Individuals - Housing Loans	6	0.0	9	0.1
Private Individuals - Other	137	1.0	81	0.7
Total Public	356	0.49	106	0.16
Total Banks	-	-	(2)	-
Total credit loss expenses	356	-	104	-

The data presented above indicates that the rise in credit loss expenses in the first half 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 financial services, industry and hotels, hotel services and food sectors.

SECURITIES

General. Securities in the Nostro portfolio totaled NIS 34,828 million as of June 30, 2017, compared with NIS 38,818 million at the end of 2016, a decrease of 10.3%. It is clarified that the "Nostro" portfolio of the Discount Group as of June 30, 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 8.9%, 5.6% and 8.2% of the total portfolio, respectively.

As of June 30, 2017, some 66% 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

	June 30, 2017	December 31, 2016	Rate of change in %
	In NIS millions		
Non-linked shekels	17,070	16,705	2.2
CPI-linked shekels	3,368	4,607	(26.9)
Foreign currency and foreign currency-linked shekels	13,465	16,530	(18.5)
Shares - non-monetary items	925	976	(5.2)
Total	34,828	38,818	(10.3)

Securities in foreign currency and in Israeli currency linked to foreign currency decrease by 18.5%, 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\$448 million, a decrease of 10.4% 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 6.8% 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

	June 30, 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						
Bonds						
Held to maturity	5,674	5,939	5,674	6,267	6,559	6,267
Available for sale	26,134	26,249	26,249	28,671	28,753	28,753
Trading	1,977	1,980	1,980	2,827	2,822	2,822
Shares						
Available for sale	904	908	908	957	963	963
Trading	17	17	17	13	13	13
Total Securities	34,706	35,093	34,828	38,735	39,110	38,818

Corporate bonds. Discount Group's available for sale securities portfolio as of June 30, 2017, includes investments in corporate bonds in the amount of NIS 2,100 million (including an amount of NIS 261 million held by IDB New York, an amount of NIS 164 million, held by Mercantile and NIS 1,675 million directly held by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 5 to the condensed financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

Investments in mortgage and asset backed securities – general. Discount Group's securities portfolio as of June 30, 2017 includes investment in mortgage backed securities, in the amount of US\$2,122 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 June 30, 2017, the portfolio of mortgage backed securities (MBS) and asset backed securities (ABS) included unrealized net losses of US\$14 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\$40 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 June 30, 2017, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that the impairment is of a temporary nature.

As of the dates June 30, 2017, June 30, 2016 and December 31, 2016, the losses accumulated but not yet realized on available-for-sale shares were in negligible amounts. As of June 30, 2017, June 30, 2016 and December 31, 2016, unrealized accumulated losses on available-for-sale mortgage and asset backed securities amounted to total amounts of NIS 57 million, NIS 11 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 June 30, 2017, totalled NIS 171,598 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

	June 30, 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	112,664	65.7	108,345	62.9	4.0
CPI-linked shekels	5,053	2.9	5,360	3.1	(5.7)
Foreign currency and foreign currency-linked shekels	53,881	31.4	58,613	34.0	(8.1)
Total	171,598	100.0	172,318	100.0	(0.4)

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased at the rate of 8.1%, compared with December 31, 2016. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US\$168 million, an increase of 1.1% 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 2.7%, compared with December 2016.

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

	June 30, 2017	December 31, 2016	Change in %
	In NIS millions		
Domestic operations:			
Households	68,339	67,496	1.2
Private banking	15,367	16,221	(5.3)
Small and minute businesses	27,411	27,729	(1.1)
Medium businesses	6,920	6,982	(0.9)
Large businesses	14,329	14,285	0.3
Institutional bodies	15,615	13,185	18.4
Total Domestic operations	147,981	145,898	1.4
Total International operations	23,617	26,420	(10.6)
Total deposits from the public	171,598	172,318	(0.4)

The ratio of total credit to the public, net, to deposits from the public was 84.0% as at June 30, 2017, compared with 81.7% at the end of 2016.

Deposits from the public of the three largest depositor groups amounted as of June 30, 2017, to NIS 10,116 million.

Securities held for customers. On June 30, 2017, the balance of the securities held for customers at the Bank amounted to approx. NIS 183.6 billion, including approx. NIS 4.4 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 1.4%. For details as to income from security activities, see Note 3 to the condensed financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of June 30, 2017, amounted to NIS 10.01 billion, compared with NIS 10.16 billion in December 31, 2016, a decrease of 0.6%.

Investment portfolio management. On June 30, 2017, Tafnit was managing investment portfolios, overall valued at approx. NIS 6,645 million, as compared to approx. NIS 6,515 million as at December 31, 2016, an increase of 2%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at June 30, 2017, amounting to NIS 14.9 billion, compared with NIS 13.9 billion as of December 31, 2016, an increase of 7.2%.

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 31 million have been amortized to June 30, 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 June 30, 2017, on the basis of the data for that date and the transitional instructions as would apply on June 30, 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 June 30, 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 June 30, 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 June 30, 2017, totalled NIS 15,418 million, compared with NIS 14,936 million at the end of 2016, an increase of 3.2%.

Equity attributed to the Bank's shareholders as at June 30, 2017, totalled NIS 14,972 million, compared with NIS 14,512 million at the end of 2016, an increase of 3.2%. The change in equity attributed to the Bank's shareholders in the first half of 2017 was affected, among other things, by the net earnings during the period, by an increase of NIS 8 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 143 million and from a decrease of NIS 310 million in financial statements transactions adjustments and from the net actuarial gain in the amount of NIS 44 million.

The ratio of total capital to total assets, as at June 30, 2017, reached a rate of 7.1%, compared with 6.8% at the end of 2016.

COMPONENTS OF THE REGULATORY CAPITAL AS OF JUNE 30, 2017

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

Ratio of common equity tier 1 as of June 30, 2017, amounted to 9.8%, similar to December 31, 2016.

Total capital ratio as of June 30, 2017, amounted to 13.9%, compared with 13.8% on December 31, 2016.

Components of the regulatory capital

	June 30,	December 31,	
	2017	2016	2016
	in NIS millions		
1. Capital for Calculating ratio of capital			
Common equity tier 1 after deductions	15,370	14,113	15,036
Additional tier 1 capital after deductions	890	1,068	1,068
Tier 1 capital	16,260	15,181	16,104
Tier 2 capital	5,592	5,236	5,020
Total capital	21,852	20,417	21,124
2. Weighted risk assets balance			
Credit risk	⁽²⁾ 140,654	131,477	⁽²⁾ 137,393
Market risk	3,004	3,143	2,483
CVA risk	1,102	1,334	942
Operational risk	12,161	12,106	12,072
Total weighted risk assets balance	156,921	148,060	152,890
3. Ratio of capital to risk assets			
Ratio of common equity tier 1 to risk assets	9.8	9.5	9.8
Ratio of total capital to risk assets	13.9	13.8	13.8
Ratio of minimum capital required by the Supervisor of Banks			
Ratio of common equity tier 1	⁽¹⁾ 9.2	⁽¹⁾ 9.1	⁽¹⁾ 9.2
Total capital ratio	⁽¹⁾ 12.7	⁽¹⁾ 12.6	⁽¹⁾ 12.7

Footnotes:

(1) With an addition of 0.18% (June 30 2016: 0.1% ,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 51 million (December 31,2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

The growth in the Tier 2 capital stemmed 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 July-December 2017, in accordance with the transitional provisions, amount to NIS 284 million.

NIS 443 million were deducted in the first half of 2017 (of which an amount of NIS 265 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

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

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. 145-161 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 half of 2017 amounted to NIS 141 million, compared to a loss in the amount of 204 million in the corresponding period last year.

The credit loss expenses in this segment in the first half of 2017 amounted to NIS 143 million, compared to NIS 89 million in the corresponding period last year, an increase at a rate of 60.7%. 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	721	659	1,408	1,274	2,629
Credit loss expenses	71	56	143	89	216
Total Operating and other expenses	717	⁽¹⁾ 717	1,448	⁽¹⁾ 1,439	⁽¹⁾ 2,905
Net Loss Attributed to the bank's shareholders	(52)	(82)	(141)	(204)	(428)

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

DEVELOPMENTS IN THE SEGMENT

In the first half 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 process in 94 branches was completed until June 30, 2017 (of which 11 branches during the second quarter of the year).

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 results of the segment in the first half 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 June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	32	25	62	59	112
Credit loss expenses	1	1	1	1	1
Total Operating and other expenses	29	⁽¹⁾ 32	61	⁽¹⁾ 66	⁽¹⁾ 125
(Loss) Attributed to the bank's shareholders	1	(6)	-	(6)	(12)

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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, the merger process continued for the private banking department, which was 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 half of 2017 amounted to NIS 167 million, compared to an amount of NIS 110 million in the corresponding period last year, an increase at a rate of 51.8%.

The credit loss expenses in this segment in the first half of 2017 amounted to NIS 90 million, compared to NIS 49 million in the corresponding period last year.

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

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	510	473	1,016	922	1,922
Credit loss expenses	44	4	90	49	90
Total Operating and other expenses	322	⁽¹⁾ 353	657	⁽¹⁾ 679	⁽¹⁾ 1,376
Net Profit Attributed to the bank's shareholders	89	68	167	110	257

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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

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

The net gain in the first half of 2017 amounted to NIS 49 million, compared to an amount of NIS 36 million in the corresponding period last year, an increase at a rate of 36.1%.

The credit loss expenses in this segment in the first half of 2017 amounted to NIS 22 million, compared to NIS 20 million in the corresponding period last year, an increase at a rate of 10.0%.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	119	106	221	216	439
Credit loss expenses (expenses reversal)	16	(1)	22	20	46
Total Operating and other expenses	61	⁽¹⁾ 69	120	⁽¹⁾ 136	⁽¹⁾ 292
Net Profit Attributed to the bank's shareholders	27	24	49	36	56

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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

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

The net gain in the first half of 2017 amounted to NIS 95 million, compared to an amount of NIS 191 million in the corresponding period last year, a decrease at a rate of 50.3%.

The credit loss expenses in this segment in the first half of 2017 amounted to NIS 64 million, compared to expenses reversal of NIS 106 million in the corresponding period last year. The elimination of the expense in 2016 was affected by the collection of prior years' debts in high amounts.

Principal data regarding the Large businesses segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	182	168	358	343	694
Credit loss expenses (expenses reversal)	61	(34)	64	(106)	(40)
Total Operating and other expenses	74	⁽¹⁾ 77	144	⁽¹⁾ 140	⁽¹⁾ 309
Net Profit Attributed to the bank's shareholders	30	71	95	191	266

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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.

The segment's loss in the first half of 2017 amounted to NIS 5 million, compared with a loss of NIS 11 million in the corresponding period last year.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	12	11	24	23	49
Credit loss expenses	-	2	-	2	30
Total Operating and other expenses	13	⁽¹⁾ 20	31	⁽¹⁾ 37	⁽¹⁾ 75
Loss Attributed to the bank's shareholders	-	(7)	(5)	(11)	(38)

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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

FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS)

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The net gain in the first half of 2017 amounted to NIS 323 million, compared to an amount of NIS 357 million in the corresponding period last year. The income in the second quarter of 2017 and in the first half of 2017 was effected, inter alia, by an increase in 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".

Income and profits of the segment in the periods of three and six months ended June 30, 2016, were affected by the gain from sale of rights in VISA Europe and from a provision created by ICC (see the report for the second quarter of 2016, pp. 211-212).

Principal data regarding the Financial management segment (Domestic operations)

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	267	566	608	747	1,182
Total Operating and other expenses	49	⁽¹⁾ 59	102	⁽¹⁾ 104	⁽¹⁾ 198
Net Profit Attributed to the bank's shareholders	135	283	323	357	612

Footnote:

(1) Reclassified – improvement of customers attribution to segments.

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

INTERNATIONAL OPERATIONS SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The net gain in the first half of 2017 amounted to NIS 87 million, compared to NIS 99 million in the corresponding period last year, a decrease at a rate of 12.1%.

The credit loss expenses in this segment in the first half of 2017 amounted to NIS 36 million, compared to NIS 49 million in the corresponding period last year.

Principal data regarding the International operations segment

	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31,
	2017	2016	2017	2016	2016
in NIS millions					
Total income	220	235	446	490	969
Credit loss expenses	18	30	36	49	126
Total Operating and other expenses	133	137	267	280	534
Net Profit Attributed to the bank's shareholders	42	42	87	99	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 341 million in the first half of 2017, compared to NIS 366 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		
	June 30, 2017	December 31, 2016	Change in %
Balance sheet items			
Total assets	9,102	9,272	(1.8)
Total credit	5,670	5,654	0.3
Total deposits	7,186	7,329	(2.0)
Total equity	911	891	2.2
Ratio of total capital to risk assets	14.6%	14.2%	
Profit and loss statement items for the six mounts ended June 30			
	2017	2016	
Net profit attributed to the shareholders	31	31	-
Return on equity	7.0%	7.2%	

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 98 million in the first half of 2017 (after deducting a provision for taxes of NIS 11 million), compared with NIS 97 million in the first half of 2016 (after deducting a provision for taxes of NIS 21 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		
	June 30, 2017	December 31, 2016	Change in %
Balance sheet items			
Total assets	32,756	32,164	1.8
Total credit to the public, net	23,242	22,001	5.6
Total deposits from the public	27,798	27,199	2.2
Total equity	2,354	2,244	4.9
Ratio of total capital to risk assets	13.3%	13.8%	
Profit and loss statement items for the six mounts ended June 30			
	2017	2016	
Net profit attributed to the shareholders	95	90	5.6
Return on equity	8.5%	8.6%	

The principal factors affecting the business results. The income in the first half of 2017 compared with the first half of 2016, was affected, inter alia, from an increase of NIS 39 million in interest income; by an increase of NIS 41 million in credit loss expenses (which is explained by an increase of NIS 27 million in credit loss expenses on a group basis, and by the increase of NIS 14 million in credit loss expenses on a specific basis, stemming mostly from a decrease in collection of problematic debts written-off in the past) and from a decrease of NIS 7 million in operating and other expenses (which stems mostly from a reduction at a rate of 1.7% in the item "payroll and related expenses", explained by a reduction in the number of positions and by a reduction in the cost of service and in the interest in respect of certain liabilities for employee rights).

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 12.13, to the financial statements as of December 31, 2016, respectively (p. 234) and Note 10, item 4.3 to the condensed financial statements, as well as in respect of proceedings in Australia, as described in Note 10 item 5.4 to the condensed financial statements.

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

ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of June 30, 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		
	June 30, 2017	December 31, 2016	Change in %
Balance sheet items			
Total assets	13,082	12,416	5.4
Total equity	1,578	1,504	4.9
Ratio of total capital to risk assets	15.7%	15.8%	
Profit and loss statement items for the six mounts ended June 30			
	2017	2016	
Total Income	732	915	(20.0)
Net profit attributed to the shareholders	105	238	(55.9)
The contribution to the Bank's business results	64	152	(57.9)
Return on equity	14.2%	41.3%	
Profit and loss statement items disregarding gains on sale of rights in VISA Europe and an expense relating to an arrangement in lieu of criminal proceedings for the first six mounts of			
	2017	2016	
Net profit attributed to the shareholders – disregarding as aforesaid	105	97	8.2
The contribution to the Bank's business results – disregarding as aforesaid	64	62	3.2
Return on equity – disregarding as aforesaid	14.2%	15.9%	

Footnote:

(1) See Note 36 E and F to the financial statements as of 31 December, 2016.

The business results of ICC for the first half of 2017, compared with the first half of 2016, were mainly affected by the decrease in income of NIS 183 million (20.0%), (with the elimination of the gains on sale of rights in VISA Europe – an increase in income of NIS 79 million, comprising a rise of 12.1%), principally income from credit card transactions (NIS 39 million; 8.2%) and net interest income (NIS 39 million; 23.0%), as a result of the growth in volume of consumer credit. On the other hand, an increase occurred in credit loss expenses (NIS 26 million; 81.3%), stemming mostly from the growth in the retail credit portfolio of the company and from a reduction in the collection rate (stemming, inter alia, from heavier regulation regarding debt collection procedures and from changes in market behavior in relation to that prevailing in the past), from a decrease in operating expenses (NIS 28 million; 10.4%) (with the elimination of an expense relating to an arrangement in lieu of criminal proceedings – an increase in operational expenses in the amount of NIS 26 million, comprising a rise of 12.1%), stemming mostly from the growth in payments to international organizations, and from an increase in sales and marketing expenses (NIS 23 million; 18.5%) explained mostly by the growth in customer attraction and retention.

Strategic plan. On May 23, 2017, the Board of Directors of the company approved the strategic plan for the years 2017-2021. The formed plan, with the assistance of external consultants, 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. 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 items 4.1 and 5.3 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

	In NIS millions		Change in %
	June 30, 2017	December 31, 2016	
Balance sheet items			
Total assets	1,396.7	1,288.3	8.4
Total equity	596.8	494.3	20.7
Profit and loss statement items for the six months ended June 30	2017	2016	
Net profit attributed to the shareholders	102.6	10.6	
The contribution to the Bank's business results ⁽¹⁾	88.8	13.8	

Footnote:

⁽¹⁾ 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 half 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 half of 2017, Discount Capital participated, via its subsidiary, in 61 public offerings (1 on behalf of the Bank) and in 14 private offerings, amounting to NIS 23.2 billion. This, compared with 29 public offerings and 10 private placements (of which – 2 on behalf of the Discount Group), amounting to NIS 12.1 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 second 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

	June 30, 2017			December 31, 2016		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
Problematic Credit Risk⁽¹⁾:						
Impaired credit risk	⁽³⁾ 2,588	154	2,742	⁽³⁾ 3,053	187	3,240
Substandard credit risk ⁽²⁾	632	13	645	572	6	578
Special mention credit risk ⁽²⁾	1,237	255	1,492	1,557	289	1,846
Total Problematic Credit Risk	4,457	422	4,879	5,182	482	5,664
Of which: Non impaired debts, in arrears for 90 days or more ⁽²⁾	410			440		
Non-performing assets:						
Impaired debts - non accruing interest income	2,041			2,504		
Assets received in respect of credit settlement	-			2		
Total Non-Performing Assets	2,041			2,506		

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		Six months	
	ended June 30			
	2017	2016	2017	2016
	In NIS millions			
Change in impaired debts (In respect of credit to the public only):				
Balance of impaired debts as of the beginning of the period	2,640	2,804	2,943	2,944
Debts classified as impaired during the period	209	109	347	207
Debts no longer classified as impaired ⁽¹⁾	(17)	-	(32)	(8)
Accounting write-offs	(170)	(38)	(334)	(95)
Collections	(111)	(129)	(367)	(314)
Other	(12)	(8)	(18)	4
Balance of impaired debts as of end of the period	2,539	2,738	2,539	2,738
Of which: due to consequent restructure ⁽¹⁾	-	-	-	-

Changes in allowances for credit losses on impaired debts:

Balance of allowance for credit losses as of the beginning of the period	283	484	389	463
Increase in allowances	155	⁽¹⁾ 20	213	⁽¹⁾ 130
Collections and write-offs	(212)	⁽¹⁾ (29)	(376)	⁽¹⁾ (118)
Balance of allowance for credit losses as of end of the period	226	475	226	475

Footnote:

(1) Reclassified - Improvement in the calculation of the data.

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

	June 30, 2017	June 30, 2016	December 31, 2016
Ratio of balance of impaired credit to the public to balance of credit to the public	1.7%	2.0%	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%	1.5%	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	81.7%	76.4%	72.9%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.1%	2.5%	2.5%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms)	0.49%	0.16%	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)	37.9%	8.3%	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	70.4%	66.5%	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	2.0%	2.3%	2.4%

Total credit risk classified by economic sectors on a consolidated basis

June 30, 2017										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
				Net						
				Accounting						
				Periodic Write-Offs Balance of						
				Credit Recognized Allowance						
				Loss during the Period for Credit						
				Losses						
				in NIS millions						
Lending Activity in Israel										
Agriculture	1,140	1,090	12	1,139	861	12	4	4	4	17
Mining & Quarrying	1,152	1,144	-	1,150	538	-	-	-	(2)	2
Industry	15,099	14,458	453	15,013	9,049	453	187	(19)	(21)	249
Construction and Real Estate - Construction	⁽⁶⁾ 24,572	23,870	426	⁽⁶⁾ 24,540	11,142	426	213	-	1	185
Construction and Real Estate - Real Estate Activity	9,472	9,091	278	9,393	8,181	278	232	3	7	90
Electricity and Water	3,238	3,219	11	2,674	1,844	11	1	3	1	6
Commerce	19,704	18,558	481	19,606	15,785	481	213	87	59	388
Hotels, Hotel Services and Food	2,026	1,757	217	2,007	1,715	217	190	-	-	15
Transportation and Storage	5,513	5,425	41	5,472	4,412	37	24	10	9	56
Communication and Computer Services	2,749	2,307	401	2,715	2,239	401	351	133	204	117
Financial Services	9,422	8,691	652	8,106	6,293	652	648	(17)	(7)	117
Other Business Services	6,759	6,350	76	6,738	4,773	76	37	14	13	66
Public and Community Services	3,106	2,971	31	3,102	2,246	31	3	3	2	15
Total Commercial	103,952	98,931	3,079	101,655	69,078	3,075	2,103	221	270	1,323
Private Individuals - Housing Loans	29,294	28,430	307	29,294	27,200	307	-	6	3	169
Private Individuals - Other	53,186	50,580	465	53,171	27,065	465	77	138	105	488
Total Public	186,432	177,941	3,851	184,120	123,343	3,847	2,180	365	378	1,980
Banks in Israel	1,169	1,165	-	696	536	-	-	-	-	-
Israeli Government	24,057	24,057	-	1,951	744	-	-	-	-	-
Total Lending Activity in Israel	211,658	203,163	3,851	186,767	124,623	3,847	2,180	365	378	1,980

For footnotes see next page.

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

June 30, 2017										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired Expenses	Credit Losses ⁽⁴⁾		
								Periodic Credit Loss	Net Accounting	Balance of Allowance for Credit Losses
									Write-Offs during the Period	
in NIS millions										
Lending Activity Outside of Israel										
Agriculture	300	300	-	300	111	-	-	-	-	2
Mining & Quarrying	195	195	-	105	-	-	-	-	-	-
Industry	5,084	4,869	175	4,773	2,464	175	20	(8)	(51)	37
Construction and Real Estate - Construction	243	241	-	172	124	-	-	(16)	(15)	4
Construction and Real Estate - Real Estate Activity	10,058	9,493	269	10,001	7,878	269	70	10	(6)	123
Electricity and Water	393	385	8	148	124	8	-	1	-	2
Commerce	6,658	6,150	262	6,653	3,950	262	255	6	33	47
Hotels, Hotel Services and Food	1,205	1,051	50	1,202	1,154	50	-	(2)	-	10
Transportation and Storage	1,475	1,411	64	1,386	1,350	51	7	(1)	13	12
Communication and Computer Services	483	445	38	205	142	38	38	3	17	11
Financial Services	9,802	9,704	83	2,301	1,468	83	83	(4)	-	16
Of which: Federal agencies in the U.S. ⁽⁷⁾	7,279	7,279	-	-	-	-	-	-	-	-
Other Business Services	690	690	-	687	386	-	-	-	-	7
Public and Community Services ⁽⁸⁾	4,168	4,078	41	2,797	2,517	41	40	3	24	13
Total Commercial	40,754	39,012	990	30,730	21,668	977	513	(8)	15	284
Private Individuals - Housing Loans	158	149	3	158	154	3	-	-	-	2
Private Individuals - Other	1,816	1,810	3	1,813	1,127	3	-	(1)	-	13
Total Public	42,728	40,971	996	32,701	22,949	983	513	(9)	15	299
Banks Outside of Israel	6,585	6,552	32	4,514	4,341	-	-	-	-	-
Governments Outside of Israel	1,316	1,316	-	202	202	-	-	-	-	-
Total Lending Activity Outside of Israel										
	50,629	48,839	1,028	37,417	27,492	983	513	(9)	15	299
TOTAL	262,287	252,002	4,879	224,184	152,115	4,830	2,693	356	393	2,279

Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts⁽²⁾, 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 152,115, 33,903, 261, 3,206, 72,802 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 Maof Market operations.
- (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 182 million.
- (7) Including mortgage backed securities in the amount of NIS 5,694 million, issued by GNMA and in the amount of NIS 1,585 million, 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 5,149 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 262 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)

June 30, 2016										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Credit Losses ⁽⁴⁾		
								Expenses	Write-Offs during the Period	Balance of Recognized Allowance for Credit Losses
in NIS millions										
Lending Activity in Israel										
Agriculture	1,380	1,327	13	1,380	903	13	5	(5)	(1)	18
Mining & Quarrying	668	657	1	666	345	-	-	-	-	1
Industry	13,771	13,112	431	13,667	8,999	431	246	(34)	(33)	224
Construction and Real Estate - Construction	⁽⁶⁾ 19,623	18,983	404	⁽⁶⁾ 19,611	8,528	404	127	(15)	(4)	146
Construction and Real Estate - Real Estate Activity	9,166	8,387	⁽¹²⁾ 582	9,094	7,879	571	297	(38)	(19)	111
Electricity and Water	3,379	3,288	82	3,030	1,986	82	-	1	-	6
Commerce	18,160	17,200	1,038	17,999	14,652	1,038	514	32	8	419
Hotels, Hotel Services and Food	1,887	1,522	293	1,869	1,555	293	179	4	3	19
Transportation and Storage	5,111	4,800	93	4,946	4,126	87	50	4	(1)	72
Communication and Computer Services	2,993	2,139	800	2,925	2,203	800	690	6	1	182
Financial Services	10,482	10,257	104	9,196	7,546	104	101	9	1	103
Other Business Services	6,138	5,686	115	6,131	4,258	115	74	5	1	63
Public and Community Services	2,750	2,653	24	2,748	1,977	24	4	8	3	12
Total Commercial	95,508	90,011	3,980	93,262	64,957	3,962	2,287	(23)	(41)	1,376
Private Individuals - Housing Loans	25,785	24,807	331	25,785	23,360	331	-	9	15	169
Private Individuals - Other	47,754	45,500	362	47,742	23,143	362	57	81	57	417
Total Public	169,047	160,318	4,673	166,789	111,460	4,655	2,344	67	31	1,962
Banks in Israel	1,831	1,831	-	1,038	657	-	-	(1)	-	-
Israeli Government	23,870	23,870	-	1,759	518	-	-	-	-	-
Total Lending Activity in Israel	194,748	186,019	4,673	169,586	112,635	4,655	2,344	66	31	1,962

For footnotes see next page.

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

June 30, 2016										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
	Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾	Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Credit Losses ⁽⁴⁾		
								Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
in NIS millions										
Lending Activity Outside of Israel										
Agriculture	32	32	-	32	32	-	-	-	-	-
Mining & Quarrying	396	301	⁽¹²⁾ -	132	-	-	-	-	-	-
Industry	5,800	5,458	⁽¹²⁾ 120	5,160	2,674	120	5	(3)	-	37
Construction and Real Estate - Construction	181	141	39	181	127	39	38	1	-	2
Construction and Real Estate - Real Estate Activity	10,040	9,728	171	9,910	7,725	171	171	15	15	104
Electricity and Water	337	337	-	210	33	-	-	-	-	-
Commerce	7,380	7,167	126	7,294	4,655	126	33	20	27	61
Hotels, Hotel Services and Food	1,143	1,090	56	1,143	1,089	56	56	14	14	16
Transportation and Storage	1,062	1,034	19	1,012	856	5	5	1	-	7
Communicatio n and Computer Services	963	937	26	332	184	26	26	(8)	-	15
Financial Services	11,467	11,331	86	2,733	1,679	86	86	2	-	23
Of which: Federal agencies in the U.S. ⁽⁷⁾	8,109	8,109	-	-	-	-	-	-	-	-
Other Business Services	626	560	65	619	367	65	44	(4)	-	5
Public and Community Services ⁽⁸⁾	⁽⁸⁾ 4,930	4,874	-	3,082	2,785	-	-	1	-	26
Total Commercial	44,357	42,990	708	31,840	22,206	694	464	39	56	296

For footnotes see next page.

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

June 30, 2016										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
								Periodic	Net	Balance of
								Credit	Accounting	Allowance
								Loss	Write-Offs	for Credit
Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾		Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Expenses	Recognized during the Period	Losses
in NIS millions										
Lending Activity Outside of Israel										
Private										
Individuals -										
Housing Loans	150	141	3	150	148	3	-	-	-	1
Private										
Individuals -										
Other	2,106	2,103	3	2,100	1,371	3	2	-	-	14
Total Public	46,613	45,234	714	34,090	23,725	700	466	39	56	311
Banks Outside of Israel										
	7,885	7,468	⁽¹²⁾ 200	4,571	4,250	-	-	(1)	-	1
Governments Outside of Israel										
	1,155	948	⁽¹²⁾ -	27	27	-	-	-	-	-
Total Lending Activity Outside of Israel										
	55,653	53,650	914	38,688	28,002	700	466	38	56	312
TOTAL	250,401	239,669	5,587	208,274	140,637	5,355	2,810	104	87	2,274

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 140,637, 37,127, 288, 3,812, 68,537 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 Maof Market operations.
- (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 290 million.
- (7) Including mortgage backed securities in the amount of NIS 5,827 million, issued by GNMA and in the amount of NIS 2,282 million, 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 5,191 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 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (12) Following the adjustment of the treatment of bonds to the treatment of problematic debts in general, bonds were eliminated as from July 1, 2016, from the balance in which they had been included in the past (in amounts of NIS 170 million, NIS 202 million and NIS 208 million, respectively; see "securities" above).

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

December 31, 2016										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
				Net						
				Accounting						
				Periodic Credit Loss						
				Write-Offs Recognized during the Period						
				Balance of allowance for credit loss						
Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾		Total Debts ⁽²⁾⁽¹¹⁾	Of which: Problematic ⁽⁵⁾	Impaired Expenses				
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	⁽⁶⁾ 22,308	21,632	438	⁽⁶⁾ 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

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

December 31, 2016										
Total Credit Risk ⁽¹⁾				Debts ⁽²⁾ and off-balance sheet Credit Risk (excluding Derivatives) ⁽³⁾						
				Credit Losses ⁽⁴⁾						
								Periodic	Net Accounting	Balance
								Credit Loss	Write-Offs	of
								Loss	Recognized	allowance
								during the	for credit	loss
Total ⁽⁹⁾	Credit Performance Rating ⁽¹⁰⁾	Problematic ⁽⁵⁾		Total	Of which: Debts ⁽²⁾⁽¹¹⁾	Problematic ⁽⁵⁾	Impaired	Expenses	Period	
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	67	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. ⁽⁷⁾	8,117	8,117	-	-	-	-	-	-	-	-
Other Business Services	740	719	22	733	485	22	-	1	-	8
Public and Community Services ⁽⁸⁾	4,775	4,680	36	3,152	2,831	36	36	(4)	-	21
Total Commercial	44,823	43,346	962	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	-	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⁽²⁾, 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 Maof Market operations.
- (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⁽¹⁾

June 30, 2017			
Balance sheet exposure ⁽²⁾			
Across the border balance sheet exposure			
The Country	To governments ⁽⁴⁾	To banks	To others
In NIS millions			
United States	370	1,314	713
United Kingdom	-	1,738	584
PIIGS ⁽⁵⁾	-	5	5
Other	335	2,562	1,635
Total exposure to foreign countries	705	5,619	2,937
Of which - Total exposure to LDC countries	49	262	299

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) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 3,708 million and Germany – an amount of NIS 2,918 million; See above "Large businesses 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 June 30, 2017 the Bank had no such exposure.

C. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY PROBLEMS, FOR THE PERIOD OF SIX MONTHS ENDED JUNE 30, 2017

1. Information regarding balance-sheet exposure to foreign countries

As of June 30, 2017 the Bank had no such exposure.

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

As of June 30, 2017, the Bank had no such exposure.

June 30, 2017

Balance sheet exposure ⁽²⁾						Off-balance sheet exposure ⁽²⁾⁽³⁾		Across the border balance sheet exposure ⁽²⁾	
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									
30,106	20,277	9,829	12,226	831	388	7,923	58	1,453	944
-	-	-	2,322	32	31	116	-	1,719	603
-	-	-	10	-	-	5	-	7	3
98	98	-	4,532	17	14	⁽⁶⁾ 7,593	10	2,625	1,907
30,204	20,375	9,829	19,090	880	433	15,637	68	5,804	3,457
-	-	-	610	1	-	168	10	436	174

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⁽¹⁾

June 30, 2016

Balance sheet exposure⁽²⁾

Across the border balance sheet exposure

The Country	To governments ⁽⁴⁾	To banks	To others
In NIS millions			
United States	251	1,527	1,497
United Kingdom	-	2,715	596
PIIGS ⁽⁵⁾	-	6	8
Other	475	3,068	2,162
Total exposure to foreign countries	726	7,316	4,263
Of which - Total exposure to LDC countries	165	215	359

December 31, 2016

Balance sheet exposure⁽²⁾

Across the border balance sheet exposure

The Country	To governments ⁽⁴⁾	To banks	To others
In NIS millions			
United States	487	1,642	1,151
United Kingdom	-	2,146	680
PIIGS ⁽⁵⁾	-	4	8
Other	433	3,254	2,772
Total exposure to foreign countries	920	7,046	4,611
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 June 30, 2016 in the following countries: Switzerland – an amount of NIS 2,964 million; and Germany – an amount of NIS 2,233 million.

June 30, 2016

Balance sheet exposure ⁽²⁾						Off-balance sheet exposure ⁽²⁾⁽³⁾				
Balance sheet exposure to local resident customers of extensions of a banking corporation in a foreign country						Across the border balance sheet exposure ⁽²⁾				
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	Due over one year	
In NIS millions										
33,036	21,902	11,134	14,409	434	214	9,429	16	1,406	1,869	
-	-	-	3,311	93	92	27	-	2,435	876	
-	-	-	14	-	-	11	-	8	6	
158	158	-	5,705	57	54	⁽⁶⁾ 5,920	3	3,057	2,648	
33,194	22,060	11,134	23,439	584	360	15,387	19	6,906	5,399	
-	-	-	739	2	-	173	-	311	428	

December 31, 2016

December 31, 2016										
Balance sheet exposure ⁽²⁾					Off-balance sheet exposure ⁽²⁾⁽³⁾					
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country					Across the border balance sheet exposure ⁽²⁾					
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	
33,500	23,004	10,496	23,073	806	459	16,365	79	7,220	5,357	
-	-	-	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 June 30, 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 SIX MONTHS ENDED JUNE 30, 2016 AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Information regarding balance-sheet exposure to foreign countries

As of June 30, 2016 and December 31, 2016, the Bank had no such exposure.

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

As of June 30, 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 half of 2017 at a rate of 2.4%. At the same time, the inflationary environment continues to be positive at 1.3%, due to the rise in commodity 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 April and noted that the risk to the economy of the Eurozone has diminished.

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 2016 Annual Report (pp. 77-79).

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 95% of the exposure as of June 30, 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 June 30, 2017, include, inter-alia, the United States, Great Britain, Germany and France.

In the first half 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 ⁽²⁾⁽⁴⁾⁽⁵⁾	Present off balance sheet credit risk ⁽³⁾⁽⁴⁾	Present credit exposure ⁽⁴⁾
In NIS millions			
As of June 30, 2017			
Present credit exposure to foreign financial institutions ⁽⁶⁾			
External credit rating ⁽⁷⁾			
AAA to AA-	1,246	675	1,921
A+ to A-	3,670	454	4,124
BBB+ to BBB-	171	-	171
BB+ to B-	20	11	31
Not rated ⁽⁸⁾	62	63	125
Total present credit exposure to foreign financial institutions	5,169	1,203	6,372
Balance of problematic bonds	32	-	32
As of December 31, 2016			
Present credit exposure to foreign financial institutions ⁽⁶⁾			
External credit rating ⁽⁷⁾			
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 ⁽⁸⁾	58	86	144
Total present credit exposure to foreign financial institutions	6,499	1,275	7,774
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 June 30, 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 76 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 71 million as of June 30, 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 June 30, 2017, amounted to NIS 27,616 million (December 31, 2016 - NIS 26,030 million).

Certain risk characteristics of the Group's housing loans portfolio

	June 30, 2017	December 31, 2016
	%	
Rate of housing loans financing over 75% of the value of the property	3.7	4.1
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	11.5	12.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio ⁽¹⁾	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 six months ended June 30, 2017	For the year ended December 31, 2016
Average amount of loan (in NIS thousands)	700	712
Average financing ratio for housing loans (in %)	53.3	55.8
Average financing ratio for general purpose loans (in %)	36.3	36.6

Distribution of housing credit balances according to size of credit to borrowers

	June 30, 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	22,176	80.8	20,959	81.1
Between 1,200 and 4,000	4,885	17.8	4,479	17.3
Over 4,000	383	1.4	421	1.6
Total	27,444	100.0	25,859	100.0
Of which:				
Housing loans that were granted abroad	71		73	
Deduction of allowance for credit losses	172		171	
Housing loans ⁽¹⁾	262		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 ⁽¹⁾⁽⁵⁾	Balance of problematic credit ⁽¹⁾	Balance of allowances for credit losses ⁽²⁾⁽³⁾	Ratio of problematic debt
	In NIS millions			Change in %
June 30, 2017	27,616	⁽⁴⁾ 313	76	1.1
December 31, 2016	26,030	⁽⁴⁾ 328	77	1.3

Footnotes:

- (1) Recorded amount.
- (2) As at June 30, 2017 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 73 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 96 million as at June 30, 2017.(as at December 31, 2016: NIS 94 million).
- (4) Including an amount of NIS 30 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 262 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 six months ended June 30,		For the year ended December 31,	
	2017	2016	2016	
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Loan to value (LTV) ratio ⁽¹⁾				
Up to 45%	884	29.7	716	21.7
Between 45% and 60%	1,143	38.4	1,168	35.3
Over 60%	951	31.9	1,421	43.0
Total	2,978	100	3,305	100.0

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 half 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 ⁽²⁾			CPI linked credit ⁽²⁾			credit ⁽²⁾			
	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	Total Housing Credit ⁽¹⁾⁽²⁾
As at June 30, 2017	6,809	10,598	63.4	4,321	5,469	35.7	1	246	0.9	27,444
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 262 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).
- (2) The balance of credit is after deduction of allowances for credit losses of NIS 172 million (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 June 30, 2017 of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 3,494 million, comprising 12.8% 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 six months ended June 30,				For the year ended December 31,	
	2017		2016		2016	
	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Ratio of payment to income (PTI) ⁽¹⁾						
Up to 40%	2,664	99.9	3,052	99.8	6,497	99.8
Over 40%	3	0.1	6	0.2	11	0.2
Total	2,667	100.0	3,058	100.0	6,508	100.0

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 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 ⁽³⁾				
	Financial assets portfolio ⁽²⁾				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk ⁽³⁾	Total ⁽³⁾ credit risk
Balance in NIS million					
June 30, 2017					
Level of income to the account ⁽¹⁾					
Excluding permanent income to the account	1,406	232	1,638	660	2,298
Less than NIS 10 thousand	5,556	1,122	6,678	3,293	9,971
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,611	1,282	4,893	2,717	7,610
Greater than NIS 20 thousand	2,796	2,065	4,861	3,547	8,408
Total	13,369	4,701	18,070	10,217	28,287
December 31, 2016					
Level of income to the account ⁽¹⁾					
Excluding permanent income to the account	1,590	254	1,844	795	2,639
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
Total	12,789	4,579	17,368	9,759	27,127

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

	June 30, 2017	December 31, 2016
	in NIS million	
Fixed interest credit	5,601	5,489
Variable interest credit	12,469	11,879
Total	18,070	17,368

Footnote:

(1) Including data of MDB.

Development of problematic credit risk in respect of private individuals (consolidated; domestic operations; excluding housing loans)

	June 30,		Change in	Rate from total credit to the public	
	2017	2016		June 30,	2016
	in NIS million		%	%	
Problematic credit risk	465	362	28.5	1.7	1.6
Of which: impaired credit risk	77	57	35.1	0.3	0.2
Debts in arrears of 90 days or more	72	62	16.1	0.3	0.3
Net accounting write-offs recognized during the period	105	57	84.2	0.4	0.2
Balance of allowance for credit losses	488	417	17.0	1.8	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.

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

	June 30, 2017			December 31, 2016		
	Credit for the public ⁽¹⁾⁽²⁾	Of which: the problematic credit ⁽¹⁾⁽²⁾	Rate of problematic credit	Credit for the public ⁽¹⁾⁽²⁾	Of which: the problematic credit ⁽¹⁾⁽²⁾	Rate of problematic credit
Sector	in NIS million		%	in NIS million		%
Income generating real estate	10,854	365	3.4	10,936	399	3.6
Construction – general building contracting	1,834	252	13.7	1,938	290	15.0
Residential projects financing	14,564	134	0.9	13,990	97	0.7
Acquisition of building land	4,043	61	1.5	3,560	83	2.3
Other	10,230	280	2.7	9,956	350	3.5
Total⁽³⁾	41,525	1,092	2.6	40,380	1,219	3.0

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 June 30, 2017. Disclosure is focused on exposure leverage transactions, each of which exceeds NIS 80 million.

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

Sector	June 30, 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	1,085	84	1,169	-	345	52	397	-
Construction and real estate	611	251	862	-	605	245	850	-
Commerce	62	-	62	-	67	-	67	-
Transportation and storage	99	4	103	-	-	-	-	-
Total	1,857	339	2,196	-	1,017	297	1,314	-

Balance sheet exposure to leveraged finance as of June 30, 2017 amounted to NIS 1,857 million, compared to NIS 1,017 million at the end of 2016, an increase of 82.6%. The aforesaid increase was due, primarily, to changes in the financial ratios, resulting in the additional 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 June 30, 2017, amounted to NIS 339 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

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 June 30, 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					
Non linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets ⁽¹⁾	104,439	10,139	8,520	10,071	4,586
Derivative financial instruments (except for options)	14,861	22,194	12,086	10,570	4,455
Options (in terms of base assets)	202	351	953	252	158
Total fair value	119,502	32,684	21,559	20,893	9,199
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities ⁽¹⁾	91,196	9,785	11,897	9,327	2,903
Derivative financial instruments (except for options)	18,694	23,894	15,535	10,545	5,556
Options (in terms of base assets)	405	335	912	28	3
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	110,295	34,014	28,344	19,900	8,462
Financial instruments, net					
Exposure to changes in interest rates in the segment	9,207	(1,330)	(6,785)	993	737
Cumulative exposure in the segment	9,207	7,877	1,092	2,085	2,822
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets ⁽¹⁾	723	618	3,532	6,284	4,488
Derivative financial instruments (except for options)	117	104	980	1,292	591
Options (in terms of base assets)	-	12	19	15	3
Total fair value	840	734	4,531	7,591	5,082
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities ⁽¹⁾	297	368	1,837	4,227	3,536
Derivative financial instruments (except for options)	248	506	3,186	2,559	836
Options (in terms of base assets)	21	15	95	202	135
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	566	889	5,118	6,988	4,507
Financial instruments, net					
Exposure to changes in interest rates in the segment	274	(155)	(587)	603	575
Cumulative exposure in the segment	274	119	(468)	135	710

Notes:

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

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

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

(4) Including Israeli currency linked to foreign currency.

As at June 30, 2017						As at June 30, 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													
4,538	1,037	71	348	143,749	2.81%	0.69	127,312	2.84%	0.66	137,120	2.84%	0.68	
4,628	-	-	-	68,794		1.55	76,491		1.30	69,422		1.27	
58	-	-	-	1,974		0.02	1,831		0.01	1,573		0.01	
9,224	1,037	71	348	214,517		(2)0.96	205,634		(2)0.89	208,115		(2)0.87	
395	110	-	-	125,613	0.25%	0.34	111,535	0.23%	0.32	121,147	0.27%	0.32	
7,783	44	-	-	82,051		1.37	88,693		1.40	81,756		1.31	
4	-	-	-	1,687		0.01	1,506		0.01	1,084		0.01	
-	-	-	-	-		-	-		-	-		-	
8,182	154	-	-	209,351		(2)0.74	201,734		(2)0.79	203,987		(2)0.72	
1,042	883	71	348	5,166			3,900			4,128			
3,864	4,747	4,818	5,166										
3,159	880	78	8	19,770	2.07%	3.43	20,532	1.65%	3.56	20,398	1.94%	3.47	
1,926	2	-	-	5,012		4.03	4,774		4.29	4,699		4.29	
4	-	-	-	53		0.02	136		0.01	104		0.01	
5,089	882	78	8	24,835		(2)3.54	25,442		(2)3.68	25,201		(2)3.61	
1,666	342	-	-	12,273	0.64%	3.32	13,792	0.46%	3.45	13,047	0.88%	3.36	
770	42	-	-	8,147		2.02	7,369		2.38	7,844		2.15	
46	-	-	-	514		0.05	593		0.01	498		0.01	
-	-	-	-	-		-	-		-	-		-	
2,482	384	-	-	20,934		(2)2.73	21,754		(2)2.99	21,389		(2)2.84	
2,607	498	78	8	3,901			3,688			3,812			
3,317	3,815	3,893	3,901										

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 June 30, 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					
Foreign currency⁽⁴⁾					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets ⁽¹⁾	24,573	5,469	3,223	4,570	3,202
Derivative financial instruments (except for options)	27,519	28,139	21,069	4,605	3,395
Options (in terms of base assets)	1,531	1,711	2,078	18	-
Total fair value	53,623	35,319	26,370	9,193	6,597
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities ⁽¹⁾	39,408	4,952	11,118	3,486	315
Derivative financial instruments (except for options)	19,045	24,451	14,781	7,034	3,497
Options (in terms of base assets)	1,307	1,725	2,030	48	17
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	59,760	31,128	27,929	10,568	3,829
Financial instruments, net					
Exposure to changes in interest rates in the segment	(6,137)	4,191	(1,559)	(1,375)	2,768
Cumulative exposure in the segment	(6,137)	(1,946)	(3,505)	(4,880)	(2,112)
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets ^{(1), (3)}	129,944	16,226	15,275	20,925	12,276
Derivative financial instruments (except for options)	42,497	50,437	34,135	16,467	8,441
Options (in terms of base assets)	1,733	2,074	3,050	285	161
Total fair value	174,174	68,737	52,460	37,677	20,878
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities ⁽¹⁾	131,110	15,105	24,852	17,040	6,754
Derivative financial instruments (except for options)	37,987	48,851	33,502	20,138	9,889
Options (in terms of base assets)	1,733	2,075	3,037	278	155
Off-balance sheet financial instruments	-	-	68	-	-
Total fair value	170,830	66,031	61,459	37,456	16,798
Financial instruments, net					
Exposure to changes in interest rates in the segment	3,344	2,706	(8,999)	221	4,080
Cumulative exposure in the segment	3,344	6,050	(2,949)	(2,728)	1,352

Notes:

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

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

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

(4) Including Israeli currency linked to foreign currency.

As at June 30, 2017							As at June 30, 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												
4,327	774	-	424	46,562	2.88%	1.51	51,947	2.06%	1.69	52,818	3.12%	1.72
7,664	83	86	-	92,560		1.11	109,110		0.87	94,654		0.97
-	-	-	-	5,338		0.01	7,378		0.01	3,307		0.10
11,991	857	86	424	144,460		(2)1.20	168,435		(2)1.09	150,779		(2)1.21
15	11	-	-	59,305	1.04%	0.29	63,207	0.61%	0.40	64,852	1.05%	0.35
7,975	2	99	-	76,884		1.68	94,966		1.24	79,480		1.40
10	-	-	-	5,137		0.01	7,242		0.01	3,368		0.10
-	-	-	-	-		-	-		-	-		-
8,000	13	99	-	141,326		(2)1.04	165,415		(2)0.87	147,700		(2)0.91
3,991	844	(13)	424	3,134			3,020			3,079		
1,879	2,723	2,710	3,134									
12,024	2,691	149	1,705	211,215	2.75%	1.13	200,913	2.52%	1.22	211,610	2.82%	1.21
14,218	85	86	-	166,366		1.38	190,375		1.13	168,775		1.19
62	-	-	-	7,365		0.01	9,345		0.01	4,984		0.07
26,304	2,776	235	1,705	384,946		(2)1.22	400,633		(2)1.15	385,369		(2)1.18
2,076	463	-	-	197,400	0.51%	0.51	188,730	0.38%	0.57	199,344	0.56%	0.53
16,528	88	99	-	167,082		1.54	191,028		1.36	169,080		1.39
60	-	-	-	7,338		0.01	9,341		0.01	4,950		0.07
-	-	-	19	87		0.08	77		0.08	83		0.08
18,664	551	99	19	371,907		(2)0.96	389,176		(2)0.94	373,457		(2)0.91
7,640	2,225	136	1,686	13,039			11,457			11,912		
8,992	11,217	11,353	13,039									

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

	June 30	December 31	
	2017	2016	2016
In NIS millions			
Investments in shares of affiliated companies⁽¹⁾:			
Non marketable shares	144	135	157
Shares in the available-for-sale portfolio:			
Marketable shares	38	77	110
Non marketable shares	870	842	853
Total shares in the available for sale portfolio	908	919	963
Total investment in shares	1,052	1,054	1,120

Footnote:

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

Capital requirement regarding share position

	June 30	December 31	
	2017	2016	2016
In NIS millions			
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds ⁽²⁾	164	167	171
In respect of investments in other shares ⁽³⁾	55	55	65
Total capital requirement regarding share position⁽¹⁾	219	222	236

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 second 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 second quarter of 2017, the liquidity coverage ratio of the Discount Group on the basis of an observation average stood at 137.3%, 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 7% was recorded during the first half of 2017 in the money supply M1 (cash held by the public and shekel current account deposits), with a growth of approx. 8% 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 6%. It is noted that a significant acceleration occurred during the second quarter of 2017, in the raising of non-linked shekel deposits for periods of up to one year (including current accounts), compared with the first quarter. In the first half of 2016, the M1 and M2 money supply grew by approx. 9% and 5.5%, respectively, with a 3% growth in current account deposits.

A growth of NIS 7.3 billion in the monetary base was recorded in the first half of 2017, compared to NIS 8.5 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 28 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 on the other hand, a slight absorption by means of tenders for shekel deposits.

Sources for the change in the monetary base

	First half of		change in %
	2017	2016	
	In NIS billion		
Operations on the Capital Market	5.1	7.1	(28.2)
The Shekel deposits tender	(1.0)	6.0	-
Foreign currency conversion	21.5	13.1	64.1
Government activity	(20.6)	(18.0)	14.4

The Bank

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

During the first half of 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 2.8 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 3.0%. An increase in retail deposits of NIS 1.4 billion, an increase in corporate deposits of NIS 1.9 billion. on the other hand, redemption of debt notes issued by Discount Manpikim in the amount of NIS 405 million, which had been deposited with the Bank;
- Alongside the growth in the balance of deposits during the first half, current account balances increased by an amount of NIS 4.1 billion, mostly as regards retail deposits;
- Eliminating the impact of the exchange rate, foreign currency deposits increased by an amount of US\$280 million. An increase of US\$70 million in retail deposits and approx. US\$240 million in corporate deposits. Foreign currency deposits including the effect of the exchange rate declined by NIS 1.7 billion.

Deposits from the public

	June 30, 2017	June 30, 2016	December 31, 2016	Change compared to June 30, 2016		Change compared to December 31, 2016	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	91,405	81,188	87,917	10,217	12.6	3,488	4.0
CPI-linked shekels	5,084	6,032	5,761	(948)	(15.7)	(677)	(11.7)
Foreign currency and foreign currency linked shekels	27,898	28,191	29,675	(293)	(1.0)	(1,777)	(6.0)
Total	124,387	115,411	123,353	8,976	7.8	1,034	0.8
Foreign currency and foreign currency linked shekels - In US\$ millions	7,980	7,330	7,718	650	8.9	262	3.4

Deposits from Banks

	June 30, 2017	June 30, 2016	December 31, 2016	Change compared to June 30, 2016		Change compared to December 31, 2016	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	734	1,091	945	(357)	(32.7)	(211)	(22.3)
CPI-linked shekels	336	293	293	43	14.8	43	14.8
Foreign currency and foreign currency linked shekels	412	647	468	(235)	(36.3)	(56)	(11.9)
Total	1,482	2,031	1,706	(549)	(27.0)	(224)	(13.1)

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 to the condensed financial statements 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.

Following additional addresses made by the Bank to the Ministry of Finance as regards the said letter of indemnification, a draft letter of indemnification has recently been presented to the Bank.

With respect to the announcement of the Bank made to the Palestinian banks regarding the discontinuation of cash services, this following an approach by the Bank of Israel and following a presentation of an outline for providing cash services to the Palestinian banks with the involvement of the Bank of Israel, using the cash center of the Bank, the Bank has decided to grant an extension for the continuation of the cash operations.

Petition to the High Court of Justice. The 2016 annual report (p.101) discussed a petition submitted against the Minister of Finance and the Director General of his office in the matter of indemnification granted to banks in connection with their business relations with banks operating in the Palestinian Authority. Following the suggestion of the Supreme Court to the Petitioners to withdraw their petition, while preserving their arguments in full, due to the fact that the time is not yet ripe to deal with their petition, the Petitioners had filed a motion requesting a hearing of their petition. The hearing of the petition was fixed for May 10, 2018.

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; data and cyber protection risks – in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" – pp. 103-105; 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 half of 2017, to a loss of NIS 6 million, compared to a loss of NIS 2 million in 2016.

Adjustments made to assets and liabilities in respect of derivative instruments

	June 30, 2017	December 31, 2016
	in NIS millions	
Assets in respect of derivative instruments	3,232	3,304
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(17)	(10)
Liabilities in respect of derivative instruments	3,926	3,598
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(5)	(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 June 30, 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 Actuary¹ 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 Second Quarter Report (this Report).

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL

During the second quarter of 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

August 14, 2017

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

77	President & CEO's certifications
78	Chief Accountant's certification

CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of June 30, 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.

August 14, 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 June 30, 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.

August 14, 2017

Joseph Beressi
Senior Executive Vice President
Chief Accountant

CONDENSED FINANCIAL STATEMENTS

81	Review Report of the independent auditors to the shareholders of Israel Discount Bank Ltd.
82	Condensed Consolidated statement of profit and loss
83	Condensed Consolidated statement of comprehensive Income
84	Condensed Consolidated Balance Sheet
86	Condensed Statement of Changes in Equity
88	Condensed Consolidated Statement of Cash Flows
91	Notes to the Condensed Financial Statements

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

INTRODUCTION

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

SCOPE OF REVIEW

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

CONCLUSION

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

EMPHASIS OF A MATTER

Without qualifying our above conclusion, we call attention to the Note 10 items 4.1 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.)
August 14, 2017

Ziv Haft
Certified Public Accountants (Isr.)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Notes	Unaudited		Audited	
		For the three months ended June 30,	For the six months ended June 30,	For the year ended December 31,	
		2017	2016	2017	2016
in NIS millions					
Interest income		1,700	1,494	3,140	⁽¹⁾ 2,712
Interest expenses		396	339	669	508
Interest income, net	2	1,304	1,155	2,471	2,204
Credit loss expenses	6	211	58	356	104
Net interest income after credit loss expenses		1,093	1,097	2,115	2,100
Non-interest Income					
Non-interest financing income	3	79	428	304	524
Commissions		661	633	1,327	1,257
Other income		19	27	41	89
Total non-interest income		759	1,088	1,672	1,870
Operating and other Expenses					
Salaries and related expenses		814	861	1,673	1,720
Maintenance and depreciation of buildings and equipment		260	268	524	541
Other expenses		324	335	633	620
Total operating and other expenses		1,398	1,464	2,830	2,881
Profit before taxes		454	721	957	1,089
Provision for taxes on profit		163	272	345	⁽¹⁾ 447
Profit after taxes		291	449	612	642
Bank's share in profit (loss) of affiliated companies, net of tax effect		(3)	(2)	(7)	(3)
Net profit:					
Before attribution to non-controlling rights holders		288	447	605	639
Attributed to the non-controlling rights holders		(16)	(54)	(30)	(67)
Net Profit Attributed to the Bank's Shareholders		272	393	575	572
Earnings and diluted per share of NIS 0.1 par value (in NIS)	9,24				
Total earnings per share attributed to the Bank's shareholders		0.23	0.37	0.50	0.54
				0.54	0.84

Footnote:

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

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

August 14, 2017

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited				Audited
	For the three months ended		For the six months ended		For the year
	June 30,		June 30,		ended
	2017	2016	2017	2016	December 31,
	in NIS millions				2016
Net profit before attribution to non-controlling rights holders	288	447	605	639	987
Net profit attributed to non-controlling rights holders	(16)	(54)	(30)	(67)	(82)
Net profit attributed to the Bank's shareholders	272	393	575	572	905
Other comprehensive income (loss), before taxes:					
Adjustments, net, for presentation of available-for-sale securities at fair value	41	66	15	175	(126)
Financial statements translation adjustments, net	(120)	69	(310)	(47)	(44)
Adjustments of liabilities in respect of employee benefits ⁽²⁾	18	(12)	69	(239)	(239)
Net profit (loss) in respect of cash flows hedge	-	-	(1)	2	2
Other comprehensive income (loss), before taxes	(61)	123	(227)	(109)	(407)
Effect of attributed taxes	(23)	(19)	(31)	14	111
Other comprehensive income (loss), before attribution to non-controlling rights holders, after taxes	(84)	104	(258)	(95)	(296)
Other comprehensive income (loss) attributed to non-controlling rights holders	-	1	-	(1)	(4)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	(84)	103	(258)	(94)	(292)
Comprehensive income, before attribution to non-controlling interests holders	204	551	347	544	691
Comprehensive income, attributed to non-controlling interests holders	(16)	(55)	(30)	(66)	(78)
Comprehensive income, attributed to the Bank's shareholders⁽¹⁾	188	496	317	478	613

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.

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

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited		Audited
	Note	June 30, 2017	June 30, 2016	December 31, 2016
in NIS millions				
Assets				
Cash and deposits with banks		28,802	26,784	29,311
Securities (of which: 5,010, 4,578, 4,859 respectively, pledged to lenders)	5	34,828	38,053	38,818
Securities borrowed or purchased under resale agreements		261	288	440
Credit to the public	6,14	146,292	135,185	142,904
Allowance for credit losses	6,14	(2,075)	(2,093)	(2,144)
Credit to the public, net		144,217	133,092	140,760
Credit to Governments		946	546	737
Investments in affiliated companies		144	135	157
Buildings and equipment		2,249	2,290	2,295
Intangible assets and goodwill		160	160	160
Assets in respect of derivative instruments	11	3,206	3,812	3,283
Other assets		3,552	3,713	3,589
Noncurrent assets held for sale		28	9	27
Total assets		218,393	208,882	219,577

For footnotes see next page.

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

		Unaudited		Audited
	Note	June 30, 2017	June 30, 2016	December 31, 2016
in NIS millions				
Liabilities and Equity				
Deposits from the public	7	171,598	⁽²⁾ 162,155	172,318
Deposits from banks		4,506	4,539	5,342
Deposits from the Government		297	⁽²⁾ 326	303
Securities loaned or sold under repurchase agreements		3,116	3,621	3,543
Bonds and Subordinated debt notes		8,696	8,765	8,498
Liabilities in respect of derivative instruments	11	3,902	4,438	3,570
Other liabilities ⁽¹⁾		10,860	10,857	11,067
Total liabilities		202,975	194,701	204,641
Equity attributed to the Bank's shareholders		14,972	13,769	14,512
Non-controlling rights in consolidated companies		446	412	424
Total equity		15,418	14,181	14,936
Total Liabilities and Equity		218,393	208,882	219,577

Footnotes:

(1) Of which 204 NIS million, NIS 180 million and NIS 195 million, as of June 30, 2017, June 30, 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 June 30, 2017 and 2016 (unaudited)

Balance at March 31, 2017
Net Profit for the period
Dividend to non-controlling interests holders in consolidated companies
Exercise of options to Shares ⁽¹⁾
Other comprehensive loss, net after tax effect

Balance at June 30, 2017

Balance at March 31, 2016
Net Profit for the period
Transactions with controlling shareholders
Other comprehensive income, net after tax effect

Balance at June 30, 2016

B. For the six months ended June 30, 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
Other comprehensive loss, net after tax effect

Balance at June 30, 2017

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

Balance at June 30, 2016

C. For the year of 2016 (audited)

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

Balance at December 31, 2016

Footnote:

(1) See Note 20.

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

Capital reserves

	Paid up 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									
	675	4,129	231	5,035	(571)	10,290	14,754	431	15,185
	-	-	-	-	-	272	272	16	288
	-	-	-	-	-	-	-	(1)	(1)
	1	45	(16)	30	-	-	30	-	30
	-	-	-	-	(84)	-	(84)	-	(84)
	676	4,174	215	5,065	(655)	10,562	14,972	446	15,418
	665	3,434	212	4,311	(302)	9,261	13,270	357	13,627
	-	-	-	-	-	393	393	54	447
	-	-	3	3	-	-	3	-	3
	-	-	-	-	103	-	103	1	104
	665	3,434	215	4,314	(199)	9,654	13,769	412	14,181
	673	3,958	291	4,922	(397)	9,987	14,512	424	14,936
	-	-	-	-	-	575	575	30	605
	-	-	-	-	-	-	-	(8)	(8)
	3	216	(76)	143	-	-	143	-	143
	-	-	-	-	(258)	-	(258)	-	(258)
	676	4,174	215	5,065	(655)	10,562	14,972	446	15,418
	665	3,434	212	4,311	(105)	9,082	13,288	346	13,634
	-	-	-	-	-	572	572	67	639
	-	-	3	3	-	-	3	-	3
	-	-	-	-	(94)	-	(94)	(1)	(95)
	665	3,434	215	4,314	(199)	9,654	13,769	412	14,181
	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)
	673	3,958	291	4,922	(397)	9,987	14,512	424	14,936

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited		Audited	
			For the year ended	
	For the three months ended June 30	For the Six months ended June 30	December 31	
	2017	2016	2017	2016
	in NIS millions			
Cash Flows from Operating Activities				
Net profit before attribution to non-controlling rights holders in consolidated companies	288	447	605	639
Adjustments necessary to present cash flows from current operations:				
Bank's share in undistributed (profits) loss of affiliated companies.	-	4	6	5
Depreciation of buildings and equipment (including impairment in value)	107	115	206	224
Provision for impairment of securities	6	7	8	10
Credit loss expenses	337	175	609	346
Gain on sale of credit portfolio, net	-	(1)	(1)	(1)
Gain on sale of available-for-sale and held to maturity securities, net	(81)	(51)	(239)	(106)
Gain on the sale of rights in Visa Europe	-	(360)	-	(360)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(3)	(11)	14	(21)
Gain from realization at an investment in investee companies	-	-	(5)	-
Gain on realization of buildings and equipment	(15)	(20)	(35)	(80)
Net deferred taxes	(19)	(79)	(24)	(67)
Severance pay – increase (decrease) in excess of provision over the deposits	1	32	(11)	238
Net change in current assets:				
Deposits with banks	14	(11)	190	225
Credit to the public, net	(1,851)	⁽³⁾ (3,127)	(4,197)	⁽³⁾ (4,390)
Credit to Governments	(27)	⁽³⁾ (18)	(85)	⁽³⁾ (22)
Securities borrowed or purchased under resale agreements	108	(105)	179	(9)
Assets in respect of derivative instruments	(172)	(51)	77	(604)
Trading securities	634	254	939	(289)
Other assets	(110)	135	26	65
Effect of changes in exchange rate on cash and cash equivalent balances	(66)	28	(195)	(44)
Accrual differences included in investment and financing activities	553	(214)	1,642	502
Net change in current liabilities:				
Deposits from banks	(678)	697	(836)	632
Deposits from the public	455	⁽²⁾ 468	(710)	⁽²⁾ 4,007
Deposits from the Government	(6)	⁽²⁾ 1	(6)	⁽²⁾ 20
Securities borrowed or purchased under resale agreements	(224)	(77)	(427)	(212)
Liabilities in respect of derivative instruments	262	(97)	331	963
Other liabilities	(277)	9	(127)	(665)
Adjustments in respect of exchange rate differences on current assets and liabilities	(64)	⁽¹⁾ 55	(163)	⁽¹⁾ (13)
Net Cash Flows from (to) Operating Activities	(828)	(1,795)	(2,229)	993
				5,424

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 condensed financial statements form an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Unaudited		Audited	
			For the year ended	
	For the three months ended June 30	For the six months ended June 30	December 31	
	2017	2016	2017	2016
in NIS millions				
Cash Flows from Investing Activities				
Acquisition of held-to-maturity bonds	-	-	-	(185)
Proceeds from redemption of held-to-maturity bonds	126	135	272	282
Acquisition of available-for-sale securities	(2,320)	(3,782)	(4,898)	(7,343)
Proceeds from sale of available-for-sale securities	1,315	1,779	4,711	5,086
Proceeds from sale of rights in Visa Europe purchased credit portfolios	-	209	-	209
Gain on sale of credit portfolio	(453)	(276)	(948)	(558)
Proceeds from redemption of available-for-sale securities	166	264	211	424
Business combinations - see Annex A	1,653	1,327	2,307	1,828
Proceeds of the sale of investments in investee companies and dividend	-	9	-	9
The sale of operations of an investee company	3	3	12	3
Acquisition of buildings and equipment	-	(47)	-	(1,272)
Proceeds from sale of buildings and equipment	(93)	(222)	(192)	(328)
Net Cash Flows from (to) Investing Activities	436	(575)	1,538	(1,744)
Cash Flows from Financing Activities				
Issuance of subordinated debt notes	-	21	784	274
Redemption of subordinated debt notes	(12)	(66)	(601)	(1,044)
Issue of Shares	-	-	-	-
Receipts on account of option warrants	-	-	-	-
Receipts from conversion of options to shares	-	-	-	-
Dividend to non-controlling rights holders	30	-	143	-
Net cash flows from (to) Financing Activities	(1)	-	(8)	-
Net cash flows from (to) Financing Activities	17	(45)	318	(770)
Increase (decrease) in cash	(468)			
Cash balance at beginning of period	(375)	(2,415)	(373)	(1,521)
Effect of changes in exchange rate on cash and cash equivalent balances	28,862	28,806	28,819	27,886
Cash balance at end of period	12	(2)	53	10
Interest and taxes paid and/or received	28,499	26,375	28,499	26,375
Interest received	28,499	26,375	28,499	26,375
Interest paid	1,567	1,311	3,239	2,745
Dividends received	(296)	(281)	(601)	(645)
Taxes on income paid	4	8	9	10
Taxes on income received	(243)	(259)	(367)	(344)
	25	262	64	283

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 condensed financial statements form an integral part thereof.

APPENDIX A – BUSINESS COMBINATIONS⁽¹⁾

	Unaudited				Audited
	For the three months ended June 30		For the six months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
in NIS millions					
Net assets	-	(22)	-	(22)	(22)
Goodwill	-	(18)	-	(18)	(18)
Disregarding non-controlling rights	-	49	-	49	49
Business combinations	-	9	-	9	9

Footnotes:

(1) The merger of Clal Finance Underwriting Ltd. 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 June 30		For the six months ended June 30		For the year ended December 31
	2017	2016	2017	2016	2016
in NIS millions					
Income from sale of rights in Visa Europe	-	80	-	80	74
Purchase of fixed assets	-	-	5	12	45
Lending of securities	(918)	930	(744)	1,706	2,315

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

List of Notes	Page No.
1. Accounting Policies	92
2. Interest income and expenses	95
3. Non-interest financing income	96
4. Accumulated other comprehensive income (loss)	97
5. Securities	100
6. Credit risk, credit to the public and allowance for credit losses	116
7. Deposits from the public	121
8. Employee benefits	122
9. Capital Adequacy, leverage and liquidity in accordance with Directives of the Supervisor of Banks	128
10. Contingent liabilities and special commitments	132
11. Derivative instrument activity - volume, credit risk and due dates	136
12. Regulatory operating segments	145
13. Managerial operating segments	156
14. Additional information regarding credit risk, credit to the public and allowance for credit losses	162
15. Assets and liabilities according to linkage terms	184
16. Balances and Fair value estimates of financial instruments	187
17. Credit card activity	199
18. Draft Shelf Prospectus	199
19. Pledges, restrictive terms and collateral	199
20. Issuance of shares and option warrants	200
21. Issue of subordinated debt notes (Series L)	200
22. Taxation	200
23. Approval of a dividend to holders of preferred shares	200
24. Increasing the registered share capital of the Bank	200

1. ACCOUNTING POLICIES

- A. General.** Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel. The Bank's condensed consolidated interim financial statements (hereinafter: "the interim financial statements") as of June 30, 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 August 14, 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 June 30, 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 June 30, 2017, had the Bank continued to present the data in accordance with the previous format of presentation.

Par value of derivative instruments

Unaudited						
June 30, 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	7,117	10,420	19,954	-	-	37,491
ALM derivatives - according to the previous presentation format	11,351	84,719	83,694	-	-	179,764
Other derivatives - according to the new presentation format	4,234	87,257	65,636	10,972	63	168,162
Other derivatives - according to the previous presentation format	-	12,958	1,896	10,972	63	25,889

1. ACCOUNTING POLICIES (CONTINUED)

Statements of profit and loss items	Unaudited	
	For the three months ended June 30, 2017	For the six months ended June 30, 2017
	in NIS millions	
Net expenses in respect of ALM derivative instruments - according to the new presentation format	(303)	(792)
Net expenses in respect of ALM derivative instruments - according to the previous presentation format	(353)	(1,119)
Net expenses in respect of other derivative instruments - according to the new presentation format	(47)	(312)
Net income in respect of other derivative instruments - according to the previous presentation format	3	15

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. 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 affiliated 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".

1. ACCOUNTING POLICIES (CONTINUED)

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.

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 studies 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 are in effect as from July 1, 2017 and thereafter. Implementation of the changes is expected to affect the manner of classification in certain cases. The Bank estimates that the implementation of the changes is not expected to have a material effect.

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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
	in NIS millions			
A. Interest Income⁽²⁾				
Credit to the public	1,501	1,309	2,783	2,401
Credit to the Governments	7	5	12	8
Deposits with the Bank of Israel and cash	7	6	14	12
Deposits with Banks	7	5	14	9
Securities borrowed or purchased under resale agreements	-	-	-	-
Bonds ⁽¹⁾	174	164	306	272
Other assets	4	5	11	⁽⁵⁾ 10
Total interest income	1,700	1,494	3,140	2,712
B. Interest Expenses				
Deposits from the public	(199)	⁽⁴⁾ (155)	(334)	⁽⁴⁾ (225)
Deposits from the Government	(1)	⁽⁴⁾ (1)	(2)	⁽⁴⁾ (1)
Deposits from banks	(8)	(6)	(16)	(13)
Securities loaned or sold under repurchase agreements	(33)	(36)	(67)	(74)
Bonds and subordinated debt notes	(153)	(139)	(247)	(192)
Other liabilities	(2)	(2)	(3)	(3)
Total interest expenses	(396)	(339)	(669)	(508)
Interest Income, Net	1,304	1,155	2,471	2,204
C. Details of the net effect of hedge derivative instruments on interest income and expenses:				
Interest expenses ⁽³⁾⁽⁶⁾	-	(11)	(7)	(21)
D. Accrual basis, interest income from bonds:				
Held-to-maturity	54	61	97	103
Available-for-sale	110	96	194	164
Trading	10	7	15	5
Total included in interest income	174	164	306	272

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US \$ millions

11 11 22 22

Interest Income generated by mortgage backed securities (MBS) - in NIS millions

39 42 79 85

(2) Including the effective component of hedging relationships.

(3) Details of the effect of hedge derivative instruments on subsection A.

(4) Reclassified, see Note 1 G (2).

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

(6) 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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
in NIS millions				
A. Non-interest financing income from operations not for trading purposes				
1. From operations in derivative instruments				
Net income (expenses) in respect of ALM derivative instruments ⁽⁴⁾	(303)	140	⁽⁷⁾ (792)	(187)
Total from operations in derivative instruments	(303)	140	(792)	(187)
2. From investments in bonds⁽⁵⁾:				
Gains on sale of available-for-sale bonds	20	44	110	107
Losses on sale of available-for-sale bonds	-	(1)	(4)	(3)
Provision for impairment of available-for-sale bonds	-	(6)	-	(9)
Total from investments in bonds	20	37	106	95
3. Net exchange rate differences	349	(142)	1,178	191
4. Net profit (losses) from investments in shares:				
Gains on sale of available-for-sale shares ⁽³⁾	62	8	134	14
Gains on sale of rights in Visa Europe ⁽⁸⁾	-	360	-	360
Losses on sale of available-for-sale shares	-	-	-	(12)
Provision for impairment of available-for-sale shares	(6)	(1)	(8)	(1)
Dividends from available-for-sale shares	1	5	6	7
Profit on sale of shares and activities of affiliated companies	-	-	5	18
Total from investment in shares	57	372	137	386
5. Net profit in respect of loans sold	-	1	1	1
Total non-interest financing income from operations not for trading purposes	123	408	630	486
B. Non-interest financing income from operations for trading purposes⁽⁶⁾:				
Net income (losses) in respect of other derivative instruments	(47)	9	⁽⁷⁾ (312)	17
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value ⁽¹⁾	(6)	10	(22)	20
Net realized and non-realized profit on adjustment of trading shares to fair value ⁽²⁾	9	1	8	1
Total from trading operations⁽⁶⁾	(44)	20	(326)	38
Details of non-interest financing income from operations for trading purposes, according to risk exposure:				
Interest rate exposure	(3)	15	6	27
Foreign currency exposure	(55)	2	(348)	5
Share exposure	14	3	16	6
Total according to risk exposure	(44)	20	(326)	38
Total non-interest financing income	79	428	304	524

Footnotes:

- | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|-----|-----|
| (1) Of which, a part of the profit relating to trading bonds that are still on hand at balance sheet date | 4 | 4 | 3 | 13 |
| (2) Of which, a part of the profit (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 | 20 | 37 | 106 | 98 |
| Of which, from investment in shares | 1 | - | 1 | - |
| (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) For details regarding the change in the format of presentation, see Note 1 D above. | | | | |
| (8) The consideration has been calculated in accordance with the cash consideration received in June 2016, with the addition of the fair value of the special preferred shares in VISA Inc. received in June 2016 (the market value of the VISA shares to be received upon conversion of the said preferred shares, discounted by a coefficient of 50%, in accordance with the Bank's assessment of the share blockage impact and the effect of certain uncertainties inherent in the conversion mechanism) and of the future cash consideration expected to be received in the year 2019. | | | | |
- Additional details have been brought in Note 36 F of the financial statements as of December 31, 2016.

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 ⁽¹⁾	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
in NIS millions							
A. For the three months ended June 30, 2017 and 2016 (unaudited)							
Balance at March 31, 2017	70	(168)	-	(478)	(576)	(5)	(571)
Net change during the period	25	(120)	-	11	(84)	-	(84)
Balance at June 30, 2017	95	(288)	-	(467)	(660)	(5)	(655)
Balance at March 31, 2016	231	(50)	1	(487)	(305)	(3)	(302)
Net change during the period	42	69	-	(7)	104	1	103
Balance at June 30, 2016	273	19	1	(494)	(201)	(2)	(199)
B. For the six months ended June 30, 2017 and 2016 (unaudited)							
Balance at December 31, 2016 (audited)	86	22	1	(511)	(402)	(5)	(397)
Net change during the period	9	(310)	(1)	44	(258)	-	(258)
Balance at June 30, 2017	95	(288)	-	(467)	(660)	(5)	(655)
Balance at December 31, 2015 (audited)	162	66	-	(334)	(106)	(1)	(105)
Net change during the period	111	(47)	1	(160)	(95)	(1)	(94)
Balance at June 30, 2016	273	19	1	(494)	(201)	(2)	(199)
2. For the year of 2016 (audited)							
Balance at December 31, 2015	162	66	-	(334)	(106)	(1)	(105)
Net change during the year	(76)	(44)	1	(177)	(296)	(4)	(292)
Balance at December 31, 2016	86	22	1	(511)	(402)	(5)	(397)

Footnote:

- (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.

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

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

	Unaudited					
	For the three months ended					
	June 30, 2017			June 30, 2016		
	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 income (loss) from adjustments to fair value	62	(23)	39	103	(38)	65
Loss (income) on available-for-sale securities reclassified to the statement of income ⁽²⁾	(21)	7	(14)	(37)	14	(23)
Net change during the period	41	(16)	25	66	(24)	42
Translation adjustments						
Financial statements translation adjustments ⁽¹⁾	(120)	-	(120)	69	-	69
Net change during the period	(120)	-	(120)	69	-	69
Cash flow hedging						
Net income (loss) in respect of cash flow hedging	-	-	-	(1)	1	-
Net loss (income) in respect of cash flow hedging reclassified to the statement of income	-	-	-	1	(1)	-
Net change during the period	-	-	-	-	-	-
Employee benefits⁽³⁾						
Net actuarial income (loss)	1	-	1	(22)	8	(14)
Loss (income) reclassified to the statement of income	17	(7)	10	10	(3)	7
Net change during the period	18	(7)	11	(12)	5	(7)
Total net changes during the period	(61)	(23)	(84)	123	(19)	104
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:						
Total net changes during the period	-	-	-	1	-	1
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:						
Total net changes during the period	(61)	(23)	(84)	122	(19)	103

For footnotes see next page.

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

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

	Unaudited						Audited		
	For the six months ended						For the year ended		
	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	122	(43)	79	273	(100)	173	20	(3)	17
Loss (profit) on available-for-sale securities reclassified to the statement of income ⁽²⁾	(107)	37	(70)	(98)	36	(62)	(146)	53	(93)
Net change during the period	15	(6)	9	175	(64)	111	(126)	50	(76)
Translation adjustments									
Financial statements translation adjustments ⁽¹⁾	(310)	-	(310)	(47)	-	(47)	(44)	-	(44)
Net change during the period	(310)	-	(310)	(47)	-	(47)	(44)	-	(44)
Cash flow hedging									
Net profit (loss) in respect of cash flow hedging	-	-	-	-	-	-	-	-	-
Net (profit) loss in respect of cash flow hedging reclassified to the statement of income	(1)	-	(1)	2	(1)	1	2	(1)	1
Net change during the period	(1)	-	(1)	2	(1)	1	2	(1)	1
Employee benefits									
Net actuarial profit (loss)	29	(10)	19	(256)	85	(171)	(430)	117	(313)
Loss (profit) reclassified to the statement of income ⁽³⁾	40	(15)	25	17	(6)	11	191	(55)	136
Net change during the period	69	(25)	44	(239)	79	(160)	(239)	62	(177)
Total net change during the period	(227)	(31)	(258)	(109)	14	(95)	(407)	111	(296)
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:									
Total net change during the period	-	-	-	(1)	-	(1)	(5)	1	(4)
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the period	(227)	(31)	(258)	(108)	14	(94)	(402)	110	(292)

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 pre-tax amount has been classified in the item "Salaries and related expenses".

5. SECURITIES

A. COMPOSITION

Unaudited					
June 30, 2017					
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,569	3,569	218	-	3,787
Of foreign governments	104	104	-	-	104
Of Israeli financial institutions	55	55	3	-	58
Of foreign financial institutions	32	32	-	-	32
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	609	609	4	9	604
Of others abroad ⁽⁶⁾	1,305	1,305	49	-	1,354
Total held-to-maturity bonds	5,674	(2)5,674	274	9	5,939
Unaudited					
June 30, 2017					
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value ⁽¹⁾
In NIS millions					
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	16,685	16,560	135	10	16,685
Of foreign governments	715	714	2	1	715
Of Israeli financial institutions	56	55	1	-	56
Of foreign financial institutions	696	686	12	2	696
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	6,749	6,793	13	57	6,749
Of others in Israel*	293	284	10	1	293
Of others abroad ⁽⁷⁾	1,055	1,042	14	1	1,055
Total bonds	26,249	26,134	187	72	(2)26,249
Shares	908	904	5	1	(4)908
Total available-for-sale securities	27,157	27,038	(3)192	(3)73	27,157
* Of which: Bonds backed by State guarantees	125	125	-	-	125

For footnotes see next page.

5. SECURITIES (CONTINUED)

A. COMPOSITION (CONTINUED)

Unaudited					
June 30, 2017					
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value ⁽¹⁾
In NIS millions					
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,844	1,841	4	1	1,844
Of Israeli financial institutions	11	11	-	-	11
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	62	63	-	1	62
Of others in Israel*	43	42	1	-	43
Of others abroad	20	20	-	-	20
Total bonds	1,980	1,977	5	2	1,980
Shares	17	17	1	1	17
Total trading securities	1,997	1,994	(5)6	(5)3	1,997
* Of which: Bonds backed by State guarantees	6	6	-	-	6
Total securities	34,828	34,706	472	85	35,093

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 repurchase terms from held to maturity portfolio at a reduced cost of NIS 451million (approx. US\$ 129 million) and from the available for sale portfolio with a market value of NIS 3,017 million (approx. US\$ 863 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 870 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 1,304 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 63 million (Book value).

5. SECURITIES (CONTINUED)

A. COMPOSITION (CONTINUED)

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

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

For footnotes see next page.

5. SECURITIES (CONTINUED)

A. COMPOSITION (CONTINUED)

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

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 repurchase terms from held to maturity portfolio at a reduced cost of NIS 681 million (approx. US\$ 177 million) and from the available for sale portfolio with a market value of NIS 3,500 million (approx. US\$ 910 million).
- (3) Included in "Accumulated other comprehensive income".
- (4) Including shares, the fair value of which is not readily available, stated at cost of NIS 842 million.
- (5) Recorded in the statement of 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 1,761 million (book value).
- (7) Including U.S. Government agencies, in an amount of NIS 69 million (Book value).

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 ⁽¹⁾
In NIS millions					
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,703	3,703	251	-	3,954
Of foreign governments	115	115	-	-	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 ⁽⁶⁾	1,552	1,552	47	3	1,596
Total held-to-maturity bonds	6,267	(2)6,267	308	16	6,559

Audited					
December 31, 2016					
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value ⁽¹⁾
Accumulated other comprehensive income					
In NIS millions					
(2) Available for sale securities					
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	-	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 ⁽⁷⁾	2,023	1,997	30	4	2,023
Total bonds	28,753	28,671	208	126	(2)28,753
Shares	963	957	7	1	(4)963
Total available-for-sale securities	29,716	29,628	(3)215	(3)127	29,716
* Of which: Bonds backed by State guarantees	124	124	-	-	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 ⁽¹⁾
In NIS millions					
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,568	2,570	2	4	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 (MBS) or Assets - backed-securities (ABS)	61	62	-	1	61
Of others in Israel	54	54	-	-	54
Of others abroad	65	67	-	2	65
Total bonds	2,822	2,827	2	7	2,822
Shares	13	13	1	1	13
Total trading securities	2,835	2,840	(5)3	(5)8	2,835
* Of which: Bonds backed by State guarantees	17	17	-	-	17
Total securities	38,818	38,735	526	151	39,110

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 repurchase 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).

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								
June 30, 2017								
	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	87	-	-	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	32	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	222	2	-	2	266	7	-	7
Of others abroad	15	-	-	-	-	-	-	-
Total held-to-maturity bonds	324	2	-	2	298	7	-	7

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

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	-	-	-	-	-	-	-
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

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								
June 30, 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	1,967	10	-	10	-	-	-	-
Of foreign governments	455	1	-	1	-	-	-	-
Of Israeli financial institutions	-	-	-	-	10	-	-	-
Of foreign financial institutions	17	-	-	-	166	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	4,687	44	-	44	453	13	-	13
Of others in Israel	14	-	-	-	34	1	-	1
Of others abroad	244	1	-	1	-	-	-	-
Total bonds	7,384	56	-	56	663	16	-	16
Shares	4	-	-	-	15	1	-	1
Total available-for-sale securities	7,388	56	-	56	678	17	-	17

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								
June 30, 2016								
	Less than 12 months				More than 12 months			
	Unrealized losses				Unrealized losses			
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
In NIS millions								
Available for sale securities								
Bonds and loans:								
Of the Israeli Government	3,333	6	-	6	-	-	-	-
Of foreign governments	268	6	-	6	28	1	-	1
Of Israeli financial institutions	11	-	-	-	-	-	-	-
Of foreign financial institutions	397	23	-	23	114	2	-	2
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	238	1	-	1	820	10	-	10
Of others in Israel	81	1	-	1	2	-	-	-
Of others abroad	714	9	-	9	8	-	-	-
Total bonds	5,042	46	-	46	972	13	-	13
Shares	13	1	-	1	17	-	-	-
Total available-for-sale securities	5,055	47	-	47	989	13	-	13
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								
Available for sale securities								
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	-	-	-	-	-	-	-
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	-	-	-	20	1	-	1
Of others abroad	228	2	-	2	85	2	-	2
Total bonds	13,933	96	-	96	977	30	-	30
Shares	4	-	-	-	17	1	-	1
Total available-for-sale securities	13,937	96	-	96	994	31	-	31

5. SECURITIES (CONTINUED)

- D. The securities portfolio, as of June 30, 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 June 30, 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 June 30, 2017.
- F. **Fair value presentation.** The balances of securities as of June 30, 2017, June 30, 2016 and December 31, 2016, include securities amounting to NIS 28,284 million, NIS 30,439 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				
June 30, 2017				
	Amortized cost	Unrealized gains from adjustment to fair value ⁽¹⁾	Unrealized losses from adjustment to fair value ⁽¹⁾	Fair value
In NIS millions				
1. Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	1,083	2	7	1,078
Securities issued by FHLMC and FNMA	535	3	2	536
Total mortgage-backed pass-through securities	1,618	5	9	1,614
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,035	7	48	4,994
Total available-for-sale other mortgage-backed securities	5,035	7	48	4,994
Total available-for-sale MBS	6,653	12	57	6,608
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	24	2	-	26
Securities issued by FHLMC and FNMA	16	1	-	17
Total mortgage-backed pass-through securities	40	3	-	43
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	569	1	9	561
Total held-to-maturity other mortgage-backed securities	569	1	9	561
Total held-to-maturity MBS	609	4	9	604
Trading securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	63	-	1	62
Total mortgage-backed trading securities (MBS)	63	-	1	62
Total mortgage-backed securities (MBS)	7,325	16	67	7,274
2. Asset-backed available-for-sale securities (ABS)				
Collateralized bonds CLO	140	1	-	141
Total asset-backed available-for-sale securities (ABS)	140	1	-	141
Total mortgage and asset-backed securities	7,465	17	67	7,415

Footnote:

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

5. SECURITIES (CONTINUED)

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

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

Footnote:

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

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

Footnote:

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

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				
June 30, 2017				
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
In NIS millions				
1. Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	913	7	-	-
Securities issued by FHLMC and FNMA	212	2	-	-
Total mortgage-backed pass-through securities	1,125	9	-	-
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,530	35	453	13
Total other mortgage-backed securities	3,530	35	453	13
Total available-for-sale MBS	4,655	44	453	13
Held-to-maturity securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	220	2	259	7
Total other mortgage-backed securities	220	2	259	7
Total held-to-maturity MBS	220	2	259	7
Trading securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	44	1	-	-
Total mortgage-backed trading securities (MBS)	44	1	-	-
Total mortgage-backed securities (MBS)	4,919	47	712	20
2. Asset-backed available-for-sale securities (ABS)				
Collateralized bonds CLO	32	-	-	-
Total asset-backed available-for-sale securities (ABS)	32	-	-	-
Total mortgage and asset-backed securities	4,951	47	712	20

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			
	June 30, 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):				
Available-for-sale securities				
Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	102	1	593	7
Other MBS securities	-	--	18	2
Total other mortgage backed securities	102	1	611	9
Total available-for-sale MBS	102	1	611	9
Held-to-maturity securities				
Other mortgage backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	163	2	226	2
Total other mortgage backed securities	163	2	226	2
Total held-to-maturity MBS	163	2	226	2
Total mortgage-backed securities (MBS)	265	3	837	11
2. Asset-backed available-for-sale securities (ABS)				
Collateralized bonds CLO	135	--	210	1
Total asset backed available-for-sale securities (ABS)	135	-	210	1
Total mortgage and asset backed securities	400	3	1,047	12

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

I. INFORMATION REGARDING IMPAIRED BONDS

	Unaudited		Audited
	June 30, 2017	June 30, 2016	December 31, 2016
	In NIS millions		
Recorded amount of non-accruing interest income impaired bonds	49	126	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						
June 30, 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 ⁽¹⁾	66,018	-	519	66,537	4,318	70,855
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 258	27,287	-	27,545	-	27,545
Group - other	⁽²⁾ 24,470	67	27,673	52,210	1,505	53,715
Total debts*	90,746	27,354	28,192	146,292	5,823	152,115
* Of which:						
Restructured troubled debts	1,877	-	53	1,930	-	1,930
Other Impaired debts	585	-	24	609	-	609
Total balance of impaired debts	2,462	-	77	2,539	-	2,539
Debts in arrears of 90 days or more	58	280	72	410	-	410
Other problematic debts	1,115	33	312	1,460	-	1,460
Total Problematic debts	3,635	313	461	4,409	-	4,409
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,077	-	13	1,090	-	1,090
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 1	⁽³⁾ 171	-	172	-	172
Group - other	360	-	453	813	-	813
Total allowance for Credit Losses	1,438	171	466	2,075	-	2,075
Of which: in respect of impaired debts	223	-	3	226	-	226

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 68,316 million and the allowance in its respect in an amount of NIS 864 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 262 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 96 million.

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

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

Unaudited						
June 30, 2016						
	Commercial	Credit to the public 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 ⁽¹⁾	(4)61,788	-	(4)599	62,387	3,331	65,718
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)245	23,456	-	23,701	-	23,701
Group - other	(2)(4)25,130	52	(4)23,915	49,097	2,121	51,218
Total debts*	87,163	23,508	24,514	135,185	5,452	140,637
* Of which:						
Restructured troubled debts	1,742	-	49	1,791	-	1,791
Other Impaired debts	937	-	10	947	-	947
Total balance of impaired debts	2,679	-	59	2,738	-	2,738
Debts in arrears of 90 days or more	45	300	62	407	-	407
Other problematic debts	1,404	34	240	1,678	-	1,678
Total Problematic debts	4,128	334	361	4,823	-	4,823
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	(4)1,199	-	(4)13	1,212	-	1,212
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)3	(3)166	-	169	-	169
Group - other	(4)328	-	(4)384	712	1	713
Total allowance for Credit Losses	1,530	166	397	2,093	1	2,094
Of which: in respect of impaired debts	471	-	4	475	-	475

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 62,980 million and the allowance in its respect in an amount of NIS 737 million computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.
- (3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 86 million.
- (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						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	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	⁽²⁾ 261	25,696	-	25,957	-	25,957
Group - other	⁽²⁾ 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
* Of which:						
Restructured troubled debts	2,076	-	48	2,124	-	2,124
Other Impaired debts	806	-	13	819	-	819
Total balance of impaired debts	2,882	-	61	2,943	-	2,943
Debts in arrears of 90 days or more	59	299	82	440	-	440
Other problematic debts	1,366	29	294	1,689	-	1,689
Total Problematic debts	4,307	328	437	5,072	-	5,072
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 3	⁽³⁾ 168	-	171	-	171
Group - other	362	-	423	785	-	785
Total allowance for Credit Losses	1,541	168	435	2,144	-	2,144
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.

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

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

	Unaudited					
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Three months ended June 30, 2017						
Balance of allowance for credit losses, as at March 31, 2017	1,628	170	478	2,276	-	2,276
Expenses for credit loss	139	2	70	211	-	211
Accounting write-offs	(230)	(1)	(96)	(327)	-	(327)
Collection of debts written-off in previous years	79	-	49	128	-	128
Net accounting write-offs	(151)	(1)	(47)	(199)	-	(199)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2017	1,607	171	501	2,279	-	2,279
Of which: In respect of off-balance sheet credit instruments	169	-	35	204	-	204
Three months ended June 30, 2016						
Balance of allowance for credit losses, as at March 31, 2016	1,667	171	412	2,250	2	2,252
Expenses (expenses reversal) for credit loss	2	5	52	59	(1)	58
Accounting write-offs	(75)	(6)	(76)	(157)	-	(157)
Collection of debts written-off in previous years	73	-	43	116	-	116
Net accounting write-offs	(2)	(6)	(33)	(41)	-	(41)
Financial statements translation adjustments	5	-	-	5	-	5
Balance of allowance for credit losses, as at June 30, 2016	1,672	170	431	2,273	1	2,274
Of which: In respect of off-balance sheet credit instruments	142	4	34	180	-	180

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

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

	Unaudited					
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Six months ended June 30, 2017						
Balance of allowance for credit losses, as at December 31, 2016 (audited)	1,702	168	469	2,339	-	2,339
Expenses for credit loss	213	6	137	356	-	356
Accounting write-offs	(441)	(3)	(202)	(646)	-	(646)
Collection of debts written-off in previous years	156	-	97	253	-	253
Net accounting write-offs	(285)	(3)	(105)	(393)	-	(393)
Financial statements translation adjustments	(23)	-	-	(23)	-	(23)
Balance of allowance for credit losses, as at June 30, 2017	1,607	171	501	2,279	-	2,279
Of which: In respect of off-balance sheet credit instruments	169	-	35	204	-	204
Six months ended June 30, 2016						
Balance of allowance for credit losses, as at December 31, 2015 (audited)	1,675	176	407	2,258	3	2,261
Expenses (expenses reversal) for credit loss	16	9	81	106	(2)	104
Accounting write-offs	(167)	(15)	(148)	(330)	-	(330)
Collection of debts written-off in previous years	152	-	91	243	-	243
Net accounting write-offs	(15)	(15)	(57)	(87)	-	(87)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at June 30, 2016	1,672	170	431	2,273	1	2,274
Of which: In respect of off-balance sheet credit instruments	142	4	34	180	-	180

7. DEPOSITS FROM THE PUBLIC

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

	Unaudited	Audited	
	June 30	December 31	
	2017	2016	2016
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	32,171	30,162	32,673
Interest bearing	31,964	29,397	30,957
Total demand deposits	64,135	59,559	63,630
Time deposits	83,846	76,856	82,268
Total deposits in Israel*	147,981	136,415	145,898
* Of which:			
Private individuals deposits	83,706	82,551	83,717
Institutional bodies deposits	15,615	10,793	13,185
Corporations and others deposits	48,660	43,071	48,996
Outside Israel			
Demand deposits:			
Non-interest bearing	4,548	4,369	4,489
Interest bearing	11,949	13,653	13,499
Total demand deposits	16,497	18,022	17,988
Time deposits	7,120	⁽¹⁾ 7,718	8,432
Total deposits outside Israel	23,617	25,740	26,420
Total deposits from the public	171,598	162,155	172,318

Note:

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

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

	Unaudited		Audited
	June 30		December 31
	2017	2016	2016
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	66,423	⁽¹⁾ 64,014	65,085
Over 1 up to 10	48,358	⁽¹⁾ 48,552	49,980
Over 10 up to 100	24,097	⁽¹⁾ 23,959	24,462
Over 100 up to 500	16,090	14,849	19,998
Over 500	16,630	10,781	12,793
Total	171,598	162,155	172,318

Note:

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

8. EMPLOYEE BENEFITS

A. DETAILS REGARDING THE BENEFITS

	Unaudited		Audited
	June 30		December 31
	2017	2016	2016
	in NIS millions		
Severance pay:			
The liability amount	3,337	3,646	3,367
Fair value of the program's assets	2,030	2,295	2,052
Excess liabilities over the program's assets	1,307	1,351	1,315
Excess liabilities included in item "other liabilities"	1,307	1,353	1,315
Excess assets of the program included in the item "other assets"	-	2	-
Amount that included in the other liabilities item:			
Long-service ("jubilee") awards	342	441	352
Post retirement benefits to retirees	703	826	715
Vacation	157	172	142
Illness	7	8	7
Total Excess liabilities included in the other liabilities item	2,516	2,800	2,531
Of which – in respect of benefits to employees abroad	42	101	56
Excess assets of the program included in the item "other assets"	-	2	-

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 June 30,				For the six months ended June 30,				For the year ended December 31,	
	2017	2016	2017	2016	2017	2016	2017	2016	2016	
	Severance pay, retirement and pension		Post retirement retiree benefits		Severance pay, retirement and pension		Post retirement retiree benefits		Severance pay, retirement and pension	Post retirement retiree benefits
in NIS millions										
Commitment in respect of anticipated benefits at the beginning of the year	3,334	3,601	703	808	3,367	3,420	715	762	3,420	762
Cost of service	20	32	2	2	38	66	3	3	89	7
Cost of interest	26	29	7	7	52	59	14	15	106	31
Actuarial loss (profit)	10	11	(1)	14	(1)	184	(12)	59	504	(35)
Changes in foreign currency exchange rates	(8)	4	(1)	-	(17)	(3)	(3)	(1)	(3)	(1)
Benefits paid	(45)	(31)	(7)	(5)	(102)	(80)	(14)	(12)	(697)	(45)
Reductions	-	-	-	-	-	-	-	-	(52)	(4)
Commitment at the end of the period in respect of anticipated benefits	3,337	3,646	703	826	3,337	3,646	703	826	3,367	715
Commitment at the end of the period in respect of accumulated benefits ⁽¹⁾	2,822	2,968	703	826	2,822	2,968	703	826	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.

8. EMPLOYEE BENEFITS (CONTINUED)

B. DEFINED BENEFIT PLAN (CONTINUED)

1. COMMITMENT AND FINANCING STATUS (CONTINUED)

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

	Unaudited				Audited
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December 31
	2017	2016	2017	2016	2016
Severance pay, retirement and pension					
in NIS millions					
Fair value of the program's assets at the beginning of the period	2,029	2,280	2,052	2,307	2,307
Actual return on the program's assets	26	23	56	25	60
Changes in foreign currency exchange rates	(6)	3	(15)	(2)	(2)
Deposits by the Bank to the plan	6	16	12	24	37
Benefits paid	(25)	(27)	(75)	(59)	(350)
Fair value of the program's assets at the end of the period	2,030	2,295	2,030	2,295	2,052
Financing status - liability, net, recognized at the end of the period	(1,307)	(1,351)	(1,307)	(1,351)	(1,315)

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	Unaudited				Audited
	June 30		December 31		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	Post retirement retiree benefits
in NIS millions					
Amounts recognized in the item "other assets"	-	2	-	-	-
Amounts recognized in the item "other liabilities"	(1,307)	(1,353)	(703)	(826)	(715)
Net liability recognized at the end of the period	(1,307)	(1,351)	(703)	(826)	(715)

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

	Unaudited				Audited
	June 30		December 31		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	Post retirement retiree benefits
in NIS millions					
Actuarial loss, net	(611)	(482)	(55)	(160)	(658)
Net liability in respect of the transition ⁽¹⁾	(41)	(125)	-	(10)	(52)
Net cost (credit) in respect of prior service	-	(2)	6	7	-
Closing balances of accumulated other comprehensive income	(652)	(609)	(49)	(163)	(62)

Footnote:

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

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
	June 30		December 31
	2017	2016	2016
Severance pay, retirement and pension			
in NIS millions			
Commitment in respect of anticipated benefits	3,189	3,513	3,228
Commitment in respect of cumulative benefits	2,703	2,854	2,758
Fair value of the program's assets	1,888	2,160	1,919

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

	Unaudited		Audited
	June 30		December 31
	2017	2016	2016
Severance pay, retirement and pension			
in NIS millions			
Commitment in respect of anticipated benefits	3,337	3,513	3,367
Fair value of the program's assets	2,029	2,160	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 June 30,	For the six months ended June 30,	For the three months ended June 30,	For the six months ended June 30,	For the year ended December
	2017	2016	2017	2016	2016
in NIS millions					
Severance pay, retirement and pension payments					
Cost of service	20	32	38	66	89
Cost of interest	26	29	52	59	106
Anticipated return on assets of the plan	(17)	(19)	(36)	(38)	(77)
Amortization of unrecognized amounts:					
Net actuarial loss	11	8	24	13	40
Cost of prior service	-	-	-	-	1
Total amortization of unrecognized amounts	11	8	24	13	41
Other, including loss from reduction or settlement	6	-	15	-	(1)143
Total net cost of benefits	46	50	93	100	302
Total expense regarding defined deposits pension plans	45	34	90	71	153
Total expenses included in respect Severance pay, retirement and pension payments	91	84	183	171	455
Severance pay, retirement and pension payments					
Cost of service	2	2	3	3	7
Cost of interest	7	7	14	15	31
Amortization of unrecognized amounts:					
Net actuarial loss	-	2	1	4	9
Cost of prior service	-	-	-	-	(1)
Total amortization of unrecognized amounts	-	2	1	4	8
Other, including income from reduction or settlement	-	-	-	-	(1)
Total net cost of benefits	9	11	18	22	45
Total expenses included in respect Severance pay, retirement and pension payments	100	95	201	193	500

Footnote:

(1) 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 June 30,				For the six months ended June 30,				For the year ended December, 31	
	2017	2016	2017	2016	2017	2016	2017	2016	2016	
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments	Post retirement retiree benefits
in NIS millions										
Net actuarial loss (profit) for the year	1	7	(1)	14	(10)	197	(12)	59	542	(29)
Amortization of actuarial loss	(11)	(8)	-	(2)	(24)	(13)	(1)	(4)	(40)	(9)
Amortization of credit (cost) in respect of prior service	-	-	-	-	-	-	-	-	(1)	1
Amortization of net liability in respect of the transition	-	-	-	-	(11)	-	-	-	(73)	(10)
Changes in foreign currency exchange rates	-	1	(1)	-	2	-	-	-	-	-
Other, including loss (profit) from reduction or settlement	(6)	-	-	-	(15)	-	-	-	(143)	1
Total recognized in other comprehensive loss (income)	(16)	-	(2)	12	(58)	184	(13)	55	285	(46)
Total net cost of benefits⁽¹⁾	46	50	9	11	93	100	18	22	302	45
Total amount recognized in net cost of benefits and in other comprehensive income	30	50	7	23	35	284	5	77	587	(1)

Footnote:

(1) 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	
	July - December 2017	
	Severance pay, retirement and pension	Post retirement retiree benefits
in NIS millions		
Net actuarial loss	24	2
Reduction	21	-
Total amount expected to be amortized from other comprehensive income	45	2

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
	June 30		December 31	June 30		December 31
	2017	2016	2016	2017	2016	2016
	Severance pay, retirement and pension			Post retirement retiree benefits		
Discount rate	1.63%-2.36%	1.37%-2.00%	1.66%-2.22%	1.12%-2.52%	1.07%-2.07%	1.32%-2.32%

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

	Unaudited		Audited	Unaudited		Audited
	June 30		December 31	June 30		December 31
	2017	2016	2016	2017	2016	2016
	Severance pay, retirement and pension			Post retirement retiree benefits		
Discount rate	1.66%-2.28%	1.48%-2.49%	1.32%-2.49%	1.18%-2.41%	1.15%-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	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 June 30		December 31	December June 30		December 31	December June 30		December 31	December June 30		December 31
	2017	2016	2016	2017	2016	2016	2017	2016	2016	2017	2016	2016
	in NIS millions											
Discount rate	(294)	(296)	(329)	(44)	(88)	(48)	294	296	341	44	88	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

	Unaudited					Audited
Forecast ⁽¹⁾						
	For the three months ended June 30,		For the six months ended June 30,		For the year ended December, 31	
	2017	2017	2016	2017	2016	2016
Severance pay, retirement and pension payments						
in NIS millions						
deposits	15	6	16	12	24	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. 0.18% (for the whole period).
- (c) **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
	June 30,		December 31,
	2017	2016	2016
	in NIS millions		
Common equity tier 1 after deductions	⁽¹⁾ 15,370	14,113	⁽¹⁾ 15,036
Additional tier 1 capital after deductions	890	1,068	1,068
Tier 1 capital	16,260	15,181	16,104
Tier 2 capital after deductions	5,592	5,236	5,020
Total capital	21,852	20,417	21,124

Footnote:

(1) See item "D" above.

F. WEIGHTED RISK ASSETS BALANCE

	Unaudited		Audited
	June 30,		December 31,
	2017	2016	2016
	in NIS millions		
Credit risk	⁽¹⁾ 140,654	131,477	⁽¹⁾ 137,393
Market Risk	3,004	3,143	2,483
CVA risk	1,102	1,334	942
Operational risk	12,161	12,106	12,072
Total weighted risk assets balance	156,921	148,060	152,890

Footnote:

(1) The total weighted balances of the risk assets have been reduced by NIS 51 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	
	June 30,	December 31,	
	2017	2016	2016
	In %		
A. Consolidated			
Ratio of common equity tier 1 to risk assets	9.8	9.5	9.8
Ratio of total capital to risk assets	13.9	13.8	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	⁽⁴⁾ 9.2	⁽⁴⁾ 9.1	⁽⁴⁾ 9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	⁽⁴⁾ 12.7	⁽⁴⁾ 12.6	⁽⁴⁾ 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	10.7	10.9
Ratio of total capital to risk assets	13.3	13.7	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	⁽⁵⁾ 9.2	⁽⁵⁾ 9.1	⁽⁵⁾ 9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	⁽⁵⁾ 12.7	⁽⁵⁾ 12.6	⁽⁵⁾ 12.7
2. Discount Bakcorp Inc. ⁽¹⁾			
Ratio of common equity tier 1 to risk assets	13.6	13.1	13.1
Ratio of total capital to risk assets	14.6	14.1	14.2
Ratio of minimum common equity tier 1 required in accordance with local regulation	⁽²⁾ 4.5	⁽²⁾ 4.5	⁽²⁾ 4.5
Minimum total capital adequacy ratio required in accordance with local regulation	⁽²⁾ 8.0	⁽²⁾ 8.0	⁽²⁾ 8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	14.5	15.0	14.4
Ratio of total capital to risk assets	15.7	16.4	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	⁽³⁾ 12.5	⁽³⁾ 12.5	⁽³⁾ 12.5

Footnotes:

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

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

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

(4) With an addition of 0.18% (June 30, 2016: 0.1% ,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% (June 30, 2016: 0.1% ,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	
	June 30,	December 31,	
	2017	2016	2016
	in NIS millions		
A. Tier 1 capital			
Common equity	15,418	14,181	14,936
Difference between common equity and common equity tier 1	(62)	94	104
Total common equity tier 1 before supervisory adjustments and deductions	15,356	14,275	15,040
Supervisory adjustments and deductions			
Goodwill and other intangible assets	160	160	160
Deferred tax assets	-	-	-
Supervisory adjustments and other deductions	4	2	2
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	164	162	162
Total adjustments in respect to the efficiency plan	178	-	158
Total common equity tier 1 after supervisory adjustments and deductions	15,370	14,113	15,036
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	890	1,068	1,068
Total additional tier 1 capital after deductions	890	1,068	1,068
C. Tier 2 capital			
Instruments before deductions	3,820	3,655	3,301
Provision before deductions	1,772	1,581	1,719
Total tier 2 capital before deductions	5,592	5,236	5,020
Deductions	-	-	-
Total tier 2 capital	5,592	5,236	5,020

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

	Unaudited	Audited	
	June 30,	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 ⁽¹⁾ and before the effect of the adjustments in respect to the efficiency plan	9.6	9.3	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 ⁽¹⁾ and before the effect of the adjustments in respect to the efficiency plan	9.7	9.5	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 ⁽¹⁾ and after the effect of the adjustments in respect to the efficiency plan	9.8	9.5	9.8

Footnote:

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

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

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

The Directive took effect on April 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
	June 30,		December 31,
	2017	2016	2016
	in NIS millions		
A. Consolidated			
Tier 1 capital	⁽¹⁾ 16,260	⁽¹⁾ 15,181	⁽¹⁾ 16,104
Total exposures	243,259	231,935	243,900

Leverage ratio	6.7	6.5	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	6.7	6.6	6.6
Leverage ratio required by the Supervisor of Banks	5.0	5.0	5.0
2. Discount Bakcorp Inc.			
Leverage ratio	9.9	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	10.1	10.4	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 items 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⁽¹⁾ - 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		For the year ended
	June 30,		December 31,
	2017	2016	2016
	In %		
A. Consolidated			
Liquidity coverage ratio	137.3	133.9	146.5
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
B. The Bank			
Liquidity coverage ratio	154.3	160.0	178.1
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0	100.0
C. Significant subsidiaries⁽²⁾			
Mercantile Discount Bank LTD. and its consolidated companies			
Liquidity coverage ratio	155.4	122.9	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. Likewise, the directive does not apply to IDB New York.

10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

	Unaudited		Audited
	June 30		December 31
	2017	2016	2016
	in NIS millions		
1. Long-term lease contracts - rent payable in future years:			
First year	102	116	114
Second year	89	108	103
Third year	74	88	84
Fourth year	53	71	63
Fifth year	46	57	56
Sixth year and thereafter	218	267	242
Total	582	707	662
2. Commitment to acquire buildings and equipment	65	56	70
3. Commitment to invest in private investment funds and in venture capital funds	421	457	519

10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

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 1,643 million as of June 30, 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.

On 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 appeal is fixed for discussion on February 5, 2018.

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. The motion for withdrawal by the Petitioners was approved on May 14, 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. One of the Claimants filed on May 29, 2017, a request for permission to appeal to the Supreme Court the decision regarding the deposit of a guarantee. The decision of the District Court regarding the deposit of a guarantee has been deferred until August 15, 2017. On June 25, 2017, the Court decided to strike off one of the parties to the motion for approval which has not filed a motion for permission to appeal, as the date for depositing a guarantee has expired.

10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

- 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. In accordance with the decision of the Court, the case was fixed for a hearing of the preliminary arguments for September 29, 2017.
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, 2016, 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, 2016, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.
- 5.2 Note 26 C 13.2 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 3, 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. The appeal against the decision dismissing his request for exemption from Court fees was rejected on May 14, 2017. On June 12, 2017, the petitioner applied for permission to appeal to the Supreme Court. The responses to the motion for permission to appeal would be submitted until September 6, 2017.
- 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.

10. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

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 4.4 above. The claim was filed by the liquidator of the two companies claiming a refund of an amount of Australian \$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 8, 2016 with the Central Region District Court. The Claimant argues 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. In a preliminary hearing held on July 3, 2017, the Appellant was granted an extension until October 15, 2017, in order to amend the motion for approval so as to create a separation between the identity of the Appellants and the representative attorney. If no amended motion is submitted until the said date, the motion would be dismissed. An additional preliminary hearing of the case was fixed for December 24, 2017.

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.

The response of the Bank was submitted on July 23, 2017.

6. **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 half 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, and advancing the process of choosing an architect and assembling a planning team. 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⁽³⁾

Unaudited						
June 30, 2017						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives ⁽¹⁾						
Swaps	-	2,085	-	-	-	2,085
Total	-	2,085	-	-	-	2,085
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	2,085				
B. ALM derivatives ⁽¹⁾⁽²⁾						
Futures contracts	-	-	-	-	-	-
Forward contracts	6,902	52	583	-	-	7,537
Marketable option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Other option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	32	-	-	32
Swaps	215	10,368	19,339	-	-	29,922
Total	7,117	10,420	19,954	-	-	37,491
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	215	6,377				
C. Other derivatives ⁽¹⁾						
Futures contracts	-	2,164	-	75	3	2,242
Forward contracts	4,234	600	12,398	-	-	17,232
Marketable option contracts						
Options written	-	-	2,173	4,889	-	7,062
Options purchased	-	-	2,203	4,889	-	7,092
Other option contracts						
Options written	-	3,130	8,642	556	29	12,357
Options purchased	-	3,253	8,412	563	31	12,259
Swaps	-	78,110	31,808	-	-	109,918
Total	4,234	87,257	65,636	10,972	63	168,162
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	34,773				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			1,705			

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⁽³⁾ (CONTINUED)

Unaudited						
June 30, 2016						
	Interest rate contracts		Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	Shekel/CPI	Other				
in NIS millions						
A. Hedging derivatives ⁽¹⁾						
Swaps	-	3,729	-	-	-	3,729
Total	-	3,729	-	-	-	3,729
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	3,729				
B. ALM derivatives ⁽¹⁾⁽²⁾						
Futures contracts	-	3,461	-	-	-	3,461
Forward contracts	9,643	7,200	23,780	-	-	40,623
Marketable option contracts						
Options written	-	-	1,614	-	-	1,614
Options purchased	-	-	1,608	-	-	1,608
Other option contracts						
Options written	-	2,280	11,200	-	-	13,480
Options purchased	-	630	10,625	-	-	11,255
Swaps	228	72,941	61,782	-	-	134,951
Total	9,871	86,512	110,609	-	-	206,992
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	228	36,721				
C. Other derivatives ⁽¹⁾						
Futures contracts	-	34	-	-	24	58
Forward contracts	-	-	2,978	-	-	2,978
Marketable option contracts						
Options written	-	-	12	4,981	-	4,993
Options purchased	-	-	12	4,981	-	4,993
Other option contracts						
Options written	-	52	569	687	28	1,336
Options purchased	-	59	557	700	30	1,346
Swaps	-	6,903	-	-	-	6,903
Total	-	7,048	4,128	11,349	82	22,607
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	3,417				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			3,720			

Footnotes:

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

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

(3) 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⁽³⁾ (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 ⁽¹⁾						
Swaps	-	3,599	-	-	-	3,599
Total	-	3,599	-	-	-	3,599
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	-	3,599				
B. ALM derivatives ⁽¹⁾⁽²⁾						
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
Total	10,465	80,592	84,836	-	-	175,893
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate						
	228	37,576				
C. Other derivatives ⁽¹⁾						
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
Total	-	8,053	3,068	15,327	74	26,522
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⁽⁴⁾

Unaudited						
June 30, 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	-	24	-	-	-	24
Negative gross fair value	-	26	-	-	-	26
B. ALM derivatives ⁽¹⁾						
Positive gross fair value	47	105	301	-	-	453
Negative gross fair value	112	209	890	-	-	1,211
C. Other derivatives						
Positive gross fair value	108	1,255	1,013	379	-	2,755
Negative gross fair value	55	1,357	899	378	-	2,689
D.Total						
Positive gross fair value ⁽²⁾	155	1,384	1,314	379	-	3,232
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments ⁽²⁾	155	1,384	1,314	379	-	3,232
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	47	359	-	406
Negative gross fair value ⁽³⁾	167	1,592	1,789	378	-	3,926
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments ⁽³⁾	167	1,592	1,789	378	-	3,926
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	88	359	-	447

For footnotes see page 141.

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⁽⁴⁾ (CONTINUED)

Unaudited						
June 30, 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	-	213	-	-	-	213
B. ALM derivatives ⁽¹⁾						
Positive gross fair value	182	1,995	1,330	-	-	3,507
Negative gross fair value	187	2,318	1,426	-	-	3,931
C. Other derivatives						
Positive gross fair value	-	143	38	145	-	326
Negative gross fair value	-	143	35	144	-	322
D.Total						
Positive gross fair value ⁽²⁾	182	2,138	1,368	145	-	3,833
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments ⁽²⁾	182	2,138	1,368	145	-	3,833
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	36	120	-	156
Negative gross fair value ⁽³⁾	187	2,674	1,461	144	-	4,466
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments ⁽³⁾	187	2,674	1,461	144	-	4,466
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	70	120	-	190

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⁽⁴⁾ (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 ⁽¹⁾						
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	-	480
Negative gross fair value	-	61	36	379	-	476
D. Total						
Positive gross fair value ⁽²⁾	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 ⁽²⁾	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	-	-	35	356	-	391
Negative gross fair value ⁽³⁾	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 ⁽³⁾	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	-	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 26 million (June 30, 2016: NIS 21 million; December 31, 2016: NIS 21 million) positive gross fair value of assets stemming from embedded derivative instruments.
- (3) Of which: NIS 24 million (June 30, 2016: NIS 28 million; December 31, 2016: NIS 28 million) negative gross fair value of liabilities stemming from embedded derivative instruments.
- (4) 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					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
In NIS millions						
June 30, 2017						
Balance sheet balance of assets in respect of derivative instruments ⁽²⁾	34	1,767	28	33	1,370	3,232
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(1,597)	(2)	(8)	(254)	(1,861)
Credit risk mitigation in respect of cash collateral received	-	(105)	(2)	-	(16)	(123)
Net amount of assets in respect of derivative instruments	34	65	24	25	1,100	1,248
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	⁽⁴⁾ 140	81	41	10	463	735
Total credit risk in respect of derivative instruments	174	146	65	35	1,563	1,983
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	304	2,908	24	8	682	3,926
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,597)	(2)	(8)	(254)	(1,861)
Pledged cash collateral	-	(1,142)	-	-	(40)	(1,182)
Net amount of liabilities in respect of derivative instruments	304	169	22	-	388	883
June 30, 2016						
Balance sheet balance of assets in respect of derivative instruments ⁽²⁾	22	2,487	27	-	1,297	3,833
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,138)	(11)	-	(492)	(2,642)
Credit risk mitigation in respect of cash collateral received	-	(269)	-	-	(31)	(300)
Net amount of assets in respect of derivative instruments	21	80	16	-	774	891
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	-	217	27	18	637	899
Total credit risk in respect of derivative instruments	21	297	43	18	1,411	1,790
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	59	3,578	62	2	765	4,466
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,138)	(11)	-	(492)	(2,642)
Pledged cash collateral	-	(1,241)	-	-	(3)	(1,244)
Net amount of liabilities in respect of derivative instruments	58	199	51	2	270	580

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 ⁽²⁾	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)
Net amount of assets in respect of derivative instruments	129	90	14	-	646	879
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	-	242	21	22	332	617
Total credit risk in respect of derivative instruments	129	332	35	22	978	1,496
Balance sheet balance of liabilities in respect of derivative instruments ⁽³⁾	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)
Net amount of liabilities in respect of derivative instruments	191	144	39	5	406	785

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 between 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 3,206 million included in the item assets in respect of derivative instruments (June 30, 2016: NIS 3,812 million; December 31, 2016: NIS 3,283 million).
- (3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,902 million included in the item liabilities in respect of derivative instruments (June 30, 2016: NIS 4,438 million; December 31, 2016: NIS 3,570 million).
- (4) 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

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
In NIS millions					
Unaudited					
June 30, 2017					
Interest rate contracts					
Shekel/CPI	924	4,062	3,959	2,406	11,351
Other	8,327	24,776	35,617	31,042	99,762
Foreign currency contracts	50,802	25,888	7,465	3,140	87,295
Contracts on shares	8,935	600	1,437	-	10,972
Commodities and other contracts	-	45	18	-	63
Total	68,988	55,371	48,496	36,588	209,443
Unaudited					
June 30, 2016					
Total	79,342	68,076	59,240	30,390	237,048
Audited					
December 31, 2016					
Total	72,360	52,068	49,762	33,875	208,065

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 D 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 June 30, 2017							
Domestic operations							
			Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	Total	Of which: Housing loans	Of which: credit cards				
in NIS millions							
Interest income From external sources	565	216	109	1	416	100	188
Interest expenses To external sources	66	-	1	23	19	5	17
Interest income, net From external sources	499	216	108	(22)	397	95	171
Interest income, net Intersegmental	(111)	(178)	(4)	37	(34)	(20)	(47)
Total Interest income, net	388	38	104	15	363	75	124
Non-interest financing income From external sources	480	4	193	174	251	66	95
Non-interest financing income Intersegmental	(147)	-	-	(157)	(104)	(22)	(37)
Total Non-interest financing income	333	4	193	17	147	44	58
Total income	721	42	297	32	510	119	182
Credit loss expenses	71	2	32	1	44	16	61
Operating and other expenses	717	22	198	29	322	61	74
Profit (loss) before taxes	(67)	18	67	2	144	42	47
Provision for taxes (tax savings) on profit	(30)	7	22	1	54	15	16
Profit (loss) after taxes	(37)	11	45	1	90	27	31
Bank's share in operating income of affiliated companies	-	-	-	-	-	-	-
Net income (loss) from ordinary operations before Attributed to the non-controlling rights holders	(37)	11	45	1	90	27	31
Net income (loss) from ordinary operations Attributed to the non-controlling rights holders	(15)	-	(14)	-	(1)	-	(1)
Net Income (loss) Attributed to the bank's shareholders	(52)	11	31	1	89	27	30
Average Assets	55,683	26,567	12,308	292	35,093	11,344	22,154
Of which - Investment in Investee companies	-	-	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	54,816	26,691	12,174	226	34,708	11,268	22,435
Balance of credit to the public at period end ⁽³⁾	54,183	27,203	12,247	249	36,546	11,932	22,310
Balance of impaired debts	77	-	28	-	711	314	455
Balance of debts (not impaired) in arrear for over ninety days	352	280	-	-	52	5	1
Average Liabilities	73,375	120	2,406	14,445	32,624	7,376	18,387
Of which - Average Deposits from the public	68,814	-	21	14,339	28,334	6,563	16,308
Balance of deposits from the public at period end	68,339	-	21	15,367	27,411	6,920	14,329
Average Risk-assets ⁽¹⁾	40,916	15,532	11,153	441	37,285	15,035	26,353
Balance of Risk-assets at period end ⁽¹⁾	41,252	15,321	10,929	459	37,859	15,015	26,855
Average assets under management ⁽²⁾	38,511	452	-	20,836	30,199	8,378	35,266
Interest income, net:							
Margin from credit activity to the public	343	38	104	2	345	70	116
Margin from deposits activity from the public	45	-	-	13	18	5	8
Other	-	-	-	-	-	-	-
Total Interest income, net	388	38	104	15	363	75	124

Footnotes:

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

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

					International operations
Institutional bodies	Financial management	Total domestic operations	Total international operations	Total	
13	151	1,434	266	1,700	
11	176	317	79	396	
2	(25)	1,117	187	1,304	
8	167	-	-	-	
10	142	1,117	187	1,304	
28	(368)	726	33	759	
(26)	493	-	-	-	
2	125	726	33	759	
12	267	1,843	220	2,063	
-	-	193	18	211	
13	49	1,265	133	1,398	
(1)	218	385	69	454	
(1)	81	136	27	163	
-	137	249	42	291	
-	(3)	(3)	-	(3)	
-	134	246	42	288	
-	1	(16)	-	(16)	
-	135	230	42	272	
1,099	62,100	187,765	32,497	220,262	
-	147	147	-	147	
956	-	124,409	20,868	145,277	
961	-	126,181	20,111	146,292	
594	-	2,151	388	2,539	
-	-	410	-	410	
14,481	15,299	175,987	29,070	205,057	
14,444	-	148,802	24,126	172,928	
15,615	-	147,981	23,617	171,598	
1,562	11,826	133,418	22,659	156,077	
1,542	11,850	134,832	22,089	156,921	
64,937	6,893	205,020	13,876	218,896	
6	-	882	94	976	
4	-	93	79	172	
-	142	142	14	156	
10	142	1,117	187	1,304	

12. REGULATORY OPERATING SEGMENTS (CONTINUED)

C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

Unaudited							
For the three months ended June 30, 2016							
Domestic operations							
		Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	
		Of which: Housing loans	Of which: credit cards				
	Total						
in NIS millions							
Interest income From external sources	469	178	98	-	378	95	165
Interest expenses To external sources	55	-	-	20	15	3	9
Interest income, net From external sources	414	178	98	(20)	363	92	156
Interest income, net Intersegmental	(79)	(142)	(12)	31	(35)	(19)	(46)
Total Interest income, net	335	36	86	11	328	73	110
Non-interest financing income From external sources	228	10	185	(95)	91	25	57
Non-interest financing income Intersegmental	96	-	1	109	54	8	1
Total Non-interest financing income	324	10	186	14	145	33	58
Total income	659	46	272	25	473	106	168
Credit loss expenses (expenses reversal)	56	5	16	1	4	(1)	(34)
Operating and other expenses ⁽⁴⁾	717	33	186	32	353	69	77
Profit (loss) before taxes	(114)	8	70	(8)	116	38	125
Provision for taxes (tax savings) on profit	(42)	3	24	(2)	51	15	56
Profit (loss) after taxes	(72)	5	46	(6)	65	23	69
Bank's share in operating income of affiliated companies	-	-	-	-	-	-	-
Net income from ordinary operations before Attributed to the non-controlling rights holders	(72)	5	46	(6)	65	23	69
Net income (loss) from ordinary operations Attributed to the non-controlling rights holders	(10)	-	(10)	-	3	1	2
Net Income (loss) Attributed to the bank's shareholders	(82)	5	36	(6)	68	24	71
Average Assets	48,482	22,667	10,162	217	32,666	10,187	20,048
Of which - Investment in Investee companies	-	-	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	47,919	23,006	10,056	144	32,122	10,246	20,450
Balance of credit to the public at period end ⁽³⁾	47,609	23,401	10,587	183	33,165	12,095	20,121
Balance of impaired debts	59	-	13	-	1,028	551	886
Balance of debts (not impaired) in arrear for over ninety days	362	300	-	-	40	5	-
Average Liabilities	70,746	127	2,302	15,129	30,657	7,276	13,413
Of which - Average Deposits from the public	67,033	-	16	15,013	26,585	6,483	10,758
Balance of deposits from the public at period end	66,112	-	18	16,439	24,979	6,170	11,922
Average Risk-assets ⁽¹⁾	36,988	11,062	11,003	399	32,887	15,230	24,269
Balance of Risk-assets at period end ⁽¹⁾	37,665	12,712	11,050	417	33,381	15,375	24,547
Average assets under management ⁽²⁾	34,596	537	-	17,515	22,941	6,565	28,234
Interest income, net:							
Margin from credit activity to the public	288	36	86	1	313	70	106
Margin from deposits activity from the public	47	-	-	10	15	3	4
Other	-	-	-	-	-	-	-
Total Interest income, net	335	36	86	11	328	73	110

Footnotes:

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

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

		International operations		total
Institutional bodies	Financial management	Total Domestic operations	total International operations	
8	118	1,233	261	1,494
7	153	262	77	339
1	(35)	971	184	1,155
8	140	-	-	-
9	105	971	184	1,155
(8)	739	1,037	51	1,088
10	(278)	-	-	-
2	461	1,037	51	1,088
11	566	2,008	235	2,243
2	-	28	30	58
20	59	1,327	137	1,464
(11)	507	653	68	721
(4)	172	246	26	272
(7)	335	407	42	449
-	(2)	(2)	-	(2)
(7)	333	405	42	447
-	(50)	(54)	-	(54)
(7)	283	351	42	393
1,090	61,416	174,106	33,962	208,068
-	139	139	-	139
1,074	-	111,955	20,629	132,584
1,054	-	114,227	20,958	135,185
-	-	2,524	214	2,738
-	-	407	-	407
11,687	15,299	164,207	30,475	194,682
11,636	-	137,508	⁽⁵⁾ 25,250	162,758
10,793	-	136,415	⁽⁵⁾ 25,740	162,155
1,209	11,840	122,822	23,297	146,119
1,199	11,663	124,247	23,813	148,060
56,884	6,478	173,213	12,397	185,610
5	-	783	76	859
4	-	83	78	161
-	105	105	30	135
9	105	971	184	1,155

(4) Reclassified

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

(6) Reclassified - see B (1) above.

12. REGULATORY OPERATING SEGMENTS (CONTINUED)

C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

Unaudited					
For the six months ended June 30, 2017					
Domestic operations					
	Households	Private Banking		Small and minute businesses	
		Of which - Housing loans	Of which - Credit cards		
	Total				
in NIS millions					
Interest income From external sources	1,019	359	217	2	804
Interest expenses To external sources	107	-	1	43	34
Interest income, net From external sources	912	359	216	(41)	770
Interest income, net Intersegmental	(160)	(274)	(16)	69	(61)
Total Interest income, net	752	85	200	28	709
Non-interest financing income	1,246	8	387	598	623
Non-interest financing income Intersegmental	(590)	-	-	(564)	(316)
Total Non-interest financing income	656	8	387	34	307
Total income	1,408	93	587	62	1,016
Credit loss expenses	143	6	61	1	90
Operating and other expenses	1,448	51	406	61	657
Profit (loss) before taxes	(183)	36	120	-	269
Provision for taxes (tax savings) on profit	(66)	12	40	-	98
Profit (loss) after taxes	(117)	24	80	-	171
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(117)	24	80	-	171
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(24)	-	(24)	-	(4)
Net Profit (loss) Attributed to the bank's shareholders	(141)	24	56	-	167
Average Assets	55,028	26,222	12,040	270	34,436
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	54,162	26,335	11,909	204	34,021
Balance of credit to the public at period end ⁽³⁾	54,183	27,203	12,247	249	36,546
Balance of impaired debts	77	-	28	-	711
Balance of debts (not impaired) in arrear for over ninety days	352	280	-	-	52
Average Liabilities	73,153	180	2,376	14,940	32,827
Of which - Average Deposits from the public	68,581	-	20	14,834	28,622
Balance of deposits from the public at period end	68,339	-	21	15,367	27,411
Average Risk-assets ⁽¹⁾	40,580	14,989	9,974	422	36,710
Balance of Risk-assets at period end ⁽¹⁾	41,252	15,321	10,929	459	37,859
Average assets under management ⁽²⁾	36,992	462	-	20,038	29,344
Interest income, net:					
Margin from credit activity to the public	663	85	200	2	671
Margin from deposits activity from the public	89	-	-	26	38
Other	-	-	-	-	-
Total Interest income, net	752	85	200	28	709

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 total	
	Medium businesses	Large businesses	Institutional bodies	Financial management	Domestic operations	International operations	total
	183	352	13	236	2,609	531	3,140
	8	30	18	271	511	158	669
	175	322	(5)	(35)	2,098	373	2,471
	(34)	(83)	22	247	-	-	-
	141	239	17	212	2,098	373	2,471
	135	177	100	(1,280)	1,599	73	1,672
	(55)	(58)	(93)	1,676	-	-	-
	80	119	7	396	1,599	73	1,672
	221	358	24	608	3,697	446	4,143
	22	64	-	-	320	36	356
	120	144	31	102	2,563	267	2,830
	79	150	(7)	506	814	143	957
	29	53	(2)	177	289	56	345
	50	97	(5)	329	525	87	612
	-	-	-	(7)	(7)	-	(7)
	50	97	(5)	322	518	87	605
	(1)	(2)	-	1	(30)	-	(30)
	49	95	(5)	323	488	87	575
	11,014	21,847	1,103	62,957	186,655	33,428	220,083
	-	-	-	150	150	-	150
	10,973	21,963	971	-	122,294	21,098	143,392
	11,932	22,310	961	-	126,181	20,111	146,292
	314	455	594	-	2,151	388	2,539
	5	1	-	-	410	-	410
	7,275	17,341	14,051	15,494	175,081	29,939	205,020
	6,479	15,311	14,012	-	147,839	24,802	172,641
	6,920	14,329	15,615	-	147,981	23,617	171,598
	15,056	25,853	1,582	11,803	132,006	23,230	155,236
	15,015	26,855	1,542	11,850	134,832	22,089	156,921
	8,089	34,505	65,054	6,713	200,735	13,703	214,438
	132	227	8	-	1,703	191	1,894
	9	12	9	-	183	154	337
	-	-	-	212	212	28	240
	141	239	17	212	2,098	373	2,471

12. REGULATORY OPERATING SEGMENTS (CONTINUED)

C. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

Unaudited					
For the six months ended June 30, 2016 ⁽⁶⁾					
Domestic operations					
	Households	Private Banking	Small and minute businesses		
	Total	Of which - Housing loans	Of which - Credit cards		
	in NIS millions				
Interest income From external sources	799	241	185	1	711
Interest expenses To external sources	79	-	-	33	24
Interest income, net From external sources	720	241	185	(32)	687
Interest income, net Intersegmental	(77)	(171)	(21)	57	(58)
Total Interest income, net	643	70	164	25	629
Non-interest financing income	722	13	362	139	314
Non-interest financing income Intersegmental	(91)	-	-	(105)	(21)
Total Non-interest financing income	631	13	362	34	293
Total income	1,274	83	526	59	922
Credit loss expenses (expenses reversal)	89	9	29	1	49
Operating and other expenses ⁽⁷⁾	1,439	63	360	66	679
Profit (loss) before taxes	(254)	11	137	(8)	194
Provision for taxes (tax savings) on profit ⁽⁴⁾	(68)	5	52	(2)	84
Profit (loss) after taxes	(186)	6	85	(6)	110
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net income (loss) from ordinary operations before Attributed to the non-controlling rights holders	(186)	6	85	(6)	110
Net income (loss) from ordinary operations Attributed to the non-controlling rights holders	(18)	-	(18)	-	-
Net Income (loss) Attributed to the bank's shareholders	(204)	6	67	(6)	110
Average Assets	47,903	22,281	10,391	240	31,548
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	47,065	22,505	10,216	167	31,026
Balance of credit to the public at period end ⁽³⁾	47,609	23,401	10,587	183	33,165
Balance of impaired debts	59	-	13	-	1,028
Balance of debts (not impaired) in arrear for over ninety days	362	300	-	-	40
Average Liabilities	69,984	83	2,291	15,582	29,681
Of which - Average Deposits from the public	66,403	-	16	15,470	25,719
Balance of deposits from the public at period end	66,112	-	18	16,439	24,979
Average Risk-assets ⁽¹⁾	36,294	11,504	10,576	424	32,786
Balance of Risk-assets at period end ⁽¹⁾	37,665	12,712	11,050	417	33,381
Average assets under management ⁽²⁾	36,614	558	-	18,757	22,570
Interest income, net:					
Margin from credit activity to the public	558	70	164	1	599
Margin from deposits activity from the public	85	-	-	24	30
Other	-	-	-	-	-
Total Interest income, net	643	70	164	25	629

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 B (1) above.

(7) Reclassified – improvement of customers attributed to segments.

	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	182	322	16	(4)154	2,185	527	2,712
	5	15	11	185	352	156	508
	177	307	5	(31)	1,833	371	2,204
	(30)	(74)	12	170	-	-	-
	147	233	17	139	1,833	371	2,204
	79	86	21	390	1,751	119	1,870
	(10)	24	(15)	218	-	-	-
	69	110	6	608	1,751	119	1,870
	216	343	23	747	3,584	490	4,074
	20	(106)	2	-	55	49	104
	136	140	37	104	2,601	280	2,881
	60	309	(16)	643	928	161	1,089
	24	118	(5)	234	385	62	447
	36	191	(11)	409	543	99	642
	-	-	-	(3)	(3)	-	(3)
	36	191	(11)	406	540	99	639
	-	-	-	(49)	(67)	-	(67)
	36	191	(11)	357	473	99	572
	10,498	20,300	1,097	61,481	173,067	35,034	208,101
	-	-	-	140	140	-	140
	10,509	20,545	1,056	-	110,368	21,097	131,465
	12,095	20,121	1,054	-	114,227	20,958	135,185
	551	886	-	-	2,524	214	2,738
	5	-	-	-	407	-	407
	7,077	13,701	11,191	15,950	163,166	31,510	194,676
	6,308	11,026	11,146	-	136,072	(5)26,241	162,313
	6,170	11,922	10,793	-	136,415	(5)25,740	162,155
	15,055	24,408	1,221	11,208	121,396	23,723	145,119
	15,375	24,547	1,199	11,663	124,247	23,813	148,060
	5,870	28,559	55,736	6,377	174,483	12,641	187,124
	140	225	10	-	1,533	152	1,685
	7	8	7	-	161	156	317
	-	-	-	(4)139	139	63	202
	147	233	17	139	1,833	371	2,204

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
	Total	Of which - Housing loans	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	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
Total income	2,629	169	1,105	112	1,922
Credit loss expenses (expenses reversal)	216	8	73	1	90
Operating and other expenses ⁽⁷⁾	2,905	116	789	125	1,376
Profit (loss) before taxes	(492)	45	243	(14)	456
Provision for taxes (tax savings) on profit ⁽⁵⁾	(105)	20	95	(2)	202
Profit (loss) after taxes	(387)	25	148	(12)	254
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(387)	25	148	(12)	254
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(41)	-	(41)	-	3
Net Profit (loss) Attributed to the bank's shareholders	(428)	25	107	(12)	257
Average Assets	50,174	23,382	11,107	228	32,168
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public ⁽³⁾	49,230	23,484	10,993	162	31,708
Balance of credit to the public at period end ⁽³⁾	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 at period end	67,496	-	19	16,221	27,729
Average Risk-assets ⁽¹⁾	⁽⁶⁾ 37,519	12,475	⁽⁶⁾ 9,826	406	⁽⁶⁾ 33,615
Balance of Risk-assets at period end ⁽¹⁾	⁽⁶⁾ 39,872	14,234	⁽⁶⁾ 8,781	388	⁽⁶⁾ 35,153
Average assets under management ⁽²⁾	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	-	-	-	-	-
Total Interest income, net	1,346	154	353	45	1,318

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 B (2) below..

(7) Reclassified - improvement of customers attributed to segments.

	Medium businesses	Large Institutional businesses	Financial bodies management	Total Domestic operations	total International operations	total total	
	367	659	28	⁽⁶⁾ 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	⁽⁴⁾ 875	3,214	225	3,439
	439	694	49	1,182	7,027	969	7,996
	46	(40)	30	-	343	126	469
	292	309	75	⁽⁴⁾ 198	5,280	534	5,814
	101	425	(56)	984	1,404	309	1,713
	46	161	(18)	340	624	117	741
	55	264	(38)	644	780	192	972
	-	-	-	15	15	-	15
	55	264	(38)	659	795	192	987
	1	2	-	(47)	(82)	-	(82)
	56	266	(38)	612	713	192	905
	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
	⁽⁶⁾ 15,145	⁽⁶⁾ 24,679	1,294	⁽⁶⁾ 11,384	124,042	23,980	148,022
	⁽⁶⁾ 15,300	⁽⁶⁾ 24,639	1,552	⁽⁶⁾ 11,396	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
	-	-	-	⁽⁵⁾ 307	307	34	341
	292	473	32	307	3,813	744	4,557

13. MANAGERIAL OPERATING SEGMENTS

A. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS

	Unaudited				
	Retail banking ⁽²⁾	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾
In NIS millions					
For the three months ended June 30, 2017					
Interest income, net	548	127	186	145	-
Non-interest income	274	35	90	26	64
Total income	822	162	276	171	64
Credit loss expenses (expenses reversal)	88	17	57	-	-
Operating and other expenses	793	91	94	42	8
Income (loss) before taxes	(59)	54	125	129	56
Provision for taxes (tax saving) on income	(21)	19	44	55	11
Income (loss) after taxes	(38)	35	81	74	45
Bank's share in income of affiliated companies, net of tax effect	-	-	-	(2)	(1)
Net income (loss) before attributed to the non-controlling rights holders	(38)	35	81	72	44
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net income (loss) Attributed to the bank's shareholders	(38)	35	81	72	44
Balance of Assets	66,917	17,216	38,855	65,220	1,377
Balance of credit to the public	64,999	17,360	37,395	-	-
Balance of deposits from the public	109,686	13,649	25,328	3,761	-
For the three months ended June 30, 2016					
Interest income, net	488	⁽²⁾ 120	⁽²⁾ 192	⁽⁴⁾ 78	-
Non-interest income	271	⁽²⁾ 36	⁽²⁾ 82	145	20
Total income	759	156	274	223	20
Credit loss expenses (expenses reversal)	32	⁽²⁾ 14	⁽²⁾ ⁽⁵⁾ (36)	⁽⁵⁾ -	-
Operating and other expenses	⁽⁵⁾ 810	⁽²⁾ ⁽⁵⁾ 100	⁽²⁾ ⁽⁵⁾ 103	⁽⁵⁾ 33	7
Income (loss) before taxes	(83)	42	207	190	13
Provision for taxes (tax saving) on income	⁽⁴⁾ (19)	⁽⁴⁾ 16	⁽⁴⁾ 76	⁽⁴⁾ 71	1
Income (loss) after taxes	(64)	26	131	119	12
Bank's share in income of affiliated companies, net of tax effect	-	-	-	1	(3)
Net income (loss) before attributed to the non-controlling rights holders	(64)	26	131	120	9
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net income (loss) Attributed to the bank's shareholders	(64)	26	131	120	9
Balance of Assets	58,723	⁽²⁾ 16,427	⁽²⁾ 32,531	68,698	1,180
Balance of credit to the public	57,682	⁽²⁾ 16,490	⁽²⁾ 34,614	-	-
Balance of deposits from the public	106,107	⁽²⁾ 12,183	⁽²⁾ 18,424	4,725	-

footnotes:

(1) The contribution to the Bank's business results.

(2) See item B below.

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

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

(5) Reclassified – improvement of customers attributed to segments.

(6) 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.

	Discount Bancorp ⁽¹⁾	Israel Credit Cards ⁽¹⁾	other	Adjustments	Total
	188	108	1	1	1,304
	33	264	13	(40)	759
	221	372	14	(39)	2,063
	18	31	-	-	211
	132	268	9	(39)	1,398
	71	73	5	-	454
	26	27	1	1	163
	45	46	4	(1)	291
	-	-	-	-	(3)
	45	46	4	(1)	288
	-	(16)	-	-	(16)
	45	30	4	(1)	272
	31,777	13,081	4,436	(20,486)	218,393
	20,111	12,670	-	(6,243)	146,292
	23,584	21	-	(4,431)	171,598
	187	⁽⁴⁾ 89	-	1	1,155
	50	⁽⁶⁾ 508	14	(38)	1,088
	237	597	14	(37)	2,243
	29	18	-	1	58
	136	⁽⁶⁾ 303	7	(35)	1,464
	72	276	7	(3)	721
	26	⁽⁴⁾ 100	2	(1)	272
	46	176	5	(2)	449
	-	-	-	-	(2)
	46	176	5	(2)	447
	-	(54)	-	-	(54)
	46	122	5	(2)	393
	35,238	11,623	5,278	(20,816)	208,882
	20,958	11,254	-	(5,813)	135,185
	⁽³⁾ 25,704	18	-	(5,006)	162,155

13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

A. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Unaudited				
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾
In NIS millions					
For the six months ended June 30, 2017					
Interest income, net	1,067	247	354	215	-
Non-interest income	555	68	185	176	146
Total income	1,622	315	539	391	146
Credit loss expenses (expenses reversal)	178	35	48	-	-
Operating and other expenses	1,614	192	191	80	18
Income (loss) before taxes	(170)	88	300	311	128
Provision for taxes (tax saving) on income	(62)	32	105	127	34
Income (loss) after taxes	(108)	56	195	184	94
Bank's share in income of affiliated companies, net of tax effect	1	-	-	(2)	(5)
Net income (loss) before attributed to the non-controlling rights holders	(107)	56	195	182	89
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	(107)	56	195	182	89
Balance of Assets	66,917	17,216	38,855	65,220	1,377
Balance of credit to the public	64,999	17,360	37,395	-	-
Balance of deposits from the public	109,686	13,649	25,328	3,761	-
	Unaudited				
	Retail banking ⁽⁵⁾	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾
For the six months ended June 30, 2016					
Interest income, net	950	⁽²⁾ 235	⁽²⁾ 360	⁽⁴⁾ 112	-
Non-interest income	543	⁽²⁾ 69	⁽²⁾ 170	247	30
Total income	1,493	304	530	359	30
Credit loss expenses (expenses reversal)	64	⁽²⁾ 6	⁽²⁾ ⁽⁵⁾ (47)	⁽⁵⁾ -	-
Operating and other expenses	⁽⁵⁾ 1,635	⁽²⁾ ⁽⁵⁾ 209	⁽²⁾ ⁽⁵⁾ 196	⁽⁵⁾ 78	9
Income (loss) before taxes	(206)	89	381	281	21
Provision for taxes (tax saving) on income	⁽⁴⁾ (50)	⁽⁴⁾ 35	⁽⁴⁾ 140	⁽⁴⁾ 127	2
Income (loss) after taxes	(156)	54	241	154	19
Bank's share in income of affiliated companies, net of tax effect	1	-	-	2	(5)
Net income (loss) before attributed to the non-controlling rights holders	(155)	54	241	156	14
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	(155)	54	241	156	14
Balance of Assets	58,723	⁽²⁾ 16,427	⁽²⁾ 32,531	68,698	1,180
Balance of credit to the public	57,682	⁽²⁾ 16,490	⁽²⁾ 34,614	-	-
Balance of deposits from the public	106,107	⁽²⁾ 12,183	⁽²⁾ 18,424	4,725	-

footnotes:

(1) The contribution to the Bank's business results.

(2) See item B below.

(3) Reclassified, see Note 1 G (2).

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

(5) Reclassified – improvement of customers attributed to segments.

(6) 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.

	Discount Bancorp ⁽¹⁾	Israel Credit Cards ⁽¹⁾	other	Adjustments	Total
	375	209	2	2	2,471
	80	523	18	(79)	1,672
	455	732	20	(77)	4,143
	36	58	-	1	356
	266	530	16	(77)	2,830
	153	144	4	(1)	957
	55	50	3	1	345
	98	94	1	(2)	612
	-	-	-	(1)	(7)
	98	94	1	(3)	605
	-	(30)	(1)	1	(30)
	98	64	-	(2)	575
	31,777	13,081	4,436	(20,486)	218,393
	20,111	12,670	-	(6,243)	146,292
	23,584	21	-	(4,431)	171,598

	375	⁽⁴⁾ 169	1	2	2,204
	96	⁽⁶⁾ 745	48	(78)	1,870
	471	914	49	(76)	4,074
	48	32	-	1	104
	271	⁽⁶⁾ 536	20	(73)	2,881
	152	346	29	(4)	1,089
	55	⁽⁴⁾ 127	12	(1)	447
	97	219	17	(3)	642
	-	-	-	(1)	(3)
	97	219	17	(4)	639
	-	(67)	(1)	1	(67)
	97	152	16	(3)	572
	35,238	11,623	5,278	(20,816)	208,882
	20,958	11,254	-	(5,813)	135,185
	⁽³⁾ 25,704	18	-	(5,006)	162,155

13. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

A. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Audited				
	Retail banking ⁽²⁾	Middle market banking	Corporate banking	Financial management	Discount Capital ⁽¹⁾
For the year ended December 31, 2016					
In NIS millions					
Interest income, net	1,946	⁽²⁾ 469	⁽²⁾ 700	⁽⁴⁾ 323	1
Non-interest income	1,104	⁽²⁾ 135	⁽²⁾ 342	367	109
Total income	3,050	604	1,042	690	110
Credit loss expenses (expenses reversal)	239	⁽²⁾ (1)	⁽²⁾ 29	-	-
Operating and other expenses	⁽⁵⁾ 3,287	⁽²⁾ ⁽⁵⁾ 422	⁽²⁾ ⁽⁵⁾ 410	⁽⁵⁾ 151	28
Income (loss) before taxes	(476)	183	603	539	82
Provision for taxes (tax saving) on income	⁽⁴⁾ (100)	⁽²⁾ ⁽⁴⁾ 75	⁽²⁾ ⁽⁴⁾ 226	⁽⁴⁾ 228	13
Income (loss) after taxes	(376)	108	377	311	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	(375)	108	377	318	78
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net income (loss) Attributed to the bank's shareholders	(375)	108	377	318	78
Balance of Assets	63,733	⁽²⁾ 16,277	⁽²⁾ 37,645	67,941	1,267
Balance of credit to the public	61,690	⁽²⁾ 16,379	⁽²⁾ 36,349	-	-
Balance of deposits from the public	109,485	⁽²⁾ 13,024	⁽⁵⁾ ⁽²⁾ 23,778	⁽⁵⁾ 4,510	-

Footnotes:

(1) The contribution to the Bank's business results.

(2) See item 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).

(5) Reclassified – improvement of customers attributed to segments.

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.

	Discount Bancorp ⁽¹⁾	Israel Credit Cards ⁽¹⁾	other	Adjustments	Total
	747	362	3	6	4,557
	208	⁽³⁾ 1,260	71	(157)	3,439
	955	1,622	74	(151)	7,996
	127	75	-	-	469
	527	⁽³⁾ 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)
	193	186	21	(1)	905
	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					Total
	Credit to the public			Total Governments		
	Commercial	Private	Private Individuals - Loans			
		Individuals - Housing Loans				
In NIS millions						
Three months ended June 30, 2017						
Balance of allowance for credit losses, as at March 31, 2017	1,628	170	478	2,276	-	2,276
Expenses for credit loss	139	2	70	211	-	211
Accounting write-offs	(230)	(1)	(96)	(327)	-	(327)
Collection of debts written-off in previous years	79	-	49	128	-	128
Net accounting write-offs	(151)	(1)	(47)	(199)	-	(199)
Financial statements translation adjustments	(9)	-	-	(9)	-	(9)
Balance of allowance for credit losses, as at June 30, 2017	1,607	171	501	2,279	-	2,279
Of which: In respect of off-balance sheet credit instruments	169	-	35	204	-	204
Three months ended June 30, 2016						
Balance of allowance for credit losses, as at March 31, 2016	1,667	171	412	2,250	2	2,252
Expenses (expenses reversal) for credit loss	2	5	52	59	(1)	58
Accounting write-offs	(75)	(6)	(76)	(157)	-	(157)
Collection of debts written-off in previous years	73	-	43	116	-	116
Net accounting write-offs	(2)	(6)	(33)	(41)	-	(41)
Financial statements translation adjustments	5	-	-	5	-	5
Balance of allowance for credit losses, as at June 30, 2016	1,672	170	431	2,273	1	2,274
Of which: In respect of off-balance sheet credit instruments	142	4	34	180	-	180

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)

1. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES – CONSOLIDATED (CONTINUED)

	Unaudited					Total
	Commercial	Credit to the public		Total	Banks and Governments	
		Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Six months ended June 30, 2017						
Balance of allowance for credit losses, as at December 31, 2016 (audited)	1,702	168	469	2,339	-	2,339
Expenses for credit loss	213	6	137	356	-	356
Accounting write-offs	(441)	(3)	(202)	(646)	-	(646)
Collection of debts written-off in previous years	156	-	97	253	-	253
Net accounting write-offs	(285)	(3)	(105)	(393)	-	(393)
Financial statements translation adjustments	(23)	-	-	(23)	-	(23)
Balance of allowance for credit losses, as at June 30, 2017	1,607	171	501	2,279	-	2,279
Of which: In respect of off-balance sheet credit instruments	169	-	35	204	-	204
Six months ended June 30, 2016						
Balance of allowance for credit losses, as at December 31, 2015 (audited)	1,675	176	407	2,258	3	2,261
Expenses (expenses reversal) for credit loss	16	9	81	106	(2)	104
Accounting write-offs	(167)	(15)	(148)	(330)	-	(330)
Collection of debts written-off in previous years	152	-	91	243	-	243
Net accounting write-offs	(15)	(15)	(57)	(87)	-	(87)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at June 30, 2016	1,672	170	431	2,273	1	2,274
Of which: In respect of off-balance sheet credit instruments	142	4	34	180	-	180

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						
June 30, 2017						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	66,018	-	519	66,537	4,318	70,855
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 258	27,287	-	27,545	-	27,545
Group - other	⁽²⁾ 24,470	67	27,673	52,210	1,505	53,715
Total debts	90,746	27,354	28,192	146,292	5,823	152,115
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	1,077	-	13	1,090	-	1,090
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 1	⁽³⁾ 171	-	172	-	172
Group - other	360	-	453	813	-	813
Total allowance for Credit Losses	1,438	171	466	2,075	-	2,075
June 30, 2016						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	⁽⁴⁾ 61,788	-	⁽⁴⁾ 599	62,387	3,331	65,718
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽²⁾ 245	23,456	-	23,701	-	23,701
Group - other	⁽²⁾⁽⁴⁾ 25,130	52	⁽⁴⁾ 23,915	49,097	2,121	51,218
Total debts	87,163	23,508	24,514	135,185	5,452	140,637
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis ⁽¹⁾	⁽⁴⁾ 1,199	-	⁽⁴⁾ 13	1,212	-	1,212
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 3	⁽³⁾ 166	-	169	-	169
Group - other	⁽⁴⁾ 328	-	⁽⁴⁾ 384	712	1	713
Total allowance for Credit Losses	1,530	166	397	2,093	1	2,094

Footnotes:

- (1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 68,316 million (June 30, 2016 - NIS 62,980 million) and the allowance in its respect in an amount of NIS 864 million (June 30, 2016 - NIS 737 million) computed on a group basis.
- (2) The balance of commercial debts includes housing loans in the amount of NIS 262 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of June 30, 2016 – an amount of NIS 250 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 (June 30, 2016 - NIS 3 million), and computed on a group basis in an amount of NIS 96 million (June 30, 2016 - NIS 86 million).
- (4) 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						
December 31,2016						
	Credit to the public			Total	Banks and Governments	Total
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans			
In NIS millions						
Recorded amount of debts:						
Examined on a specific basis ⁽¹⁾	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	⁽²⁾ 261	25,696	-	25,957	-	25,957
Group - other	⁽²⁾ 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 ⁽¹⁾	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	⁽³⁾ 3	⁽³⁾ 168	-	171	-	171
Group - other	362	-	423	785	-	785
Total allowance for Credit Losses	1,541	168	435	2,144	-	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.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS

1. CREDIT QUALITY AND ARREARS - CONSOLIDATED

Unaudited						
June 30, 2017						
	Problematic ⁽¹⁾			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired ⁽²⁾	Total	In Arrears of 90 Days or More ⁽³⁾	In Arrears of 30 to 89 Days ⁽⁴⁾
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	10,931	76	135	11,142	10	56
Construction and Real Estate - Real Estate Activity	7,926	24	231	8,181	1	15
Financial Services	5,641	4	648	6,293	2	6
Commercial - Other	41,865	614	983	43,462	45	131
Total Commercial	66,363	718	1,997	69,078	58	208
Private Individuals - Housing Loans	26,893	⁽⁵⁾ 307	-	27,200	277	81
Private Individuals - Other Loans	26,604	384	77	27,065	72	184
Total Public - Activity in Israel	119,860	1,409	2,074	123,343	407	473
Banks in Israel	536	-	-	536	-	-
Government of Israel	744	-	-	744	-	-
Total Activity in Israel	121,140	1,409	2,074	124,623	407	473
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	7,733	199	70	8,002	-	2
Commercial - Other	13,015	256	395	13,666	-	3
Total Commercial	20,748	455	465	21,668	-	5
Private Individuals	1,275	6	-	1,281	3	14
Total Public - Activity Outside of Israel	22,023	461	465	22,949	3	19
Foreign banks	4,341	-	-	4,341	-	-
Foreign governments	202	-	-	202	-	-
Total Activity Outside of Israel	26,566	461	465	27,492	3	19
Total public	141,883	1,870	2,539	146,292	410	492
Total banks	4,877	-	-	4,877	-	-
Total governments	946	-	-	946	-	-
Total	147,706	1,870	2,539	152,115	410	492

For footnotes see page 168.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

Unaudited						
June 30, 2016						
	Problematic ⁽¹⁾			Unimpaired debts – additional information		
	Non-problematic	Unimpaired	Impaired ⁽²⁾	Total	In Arrears of 90 Days or More ⁽³⁾	In Arrears of 30 to 89 Days ⁽⁴⁾
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	8,371	54	103	8,528	9	⁽⁶⁾ 17
Construction and Real Estate - Real Estate Activity	7,336	247	296	7,879	1	⁽⁶⁾ 9
Financial Services	7,442	3	101	7,546	2	⁽⁶⁾ 12
Commercial - Other	38,357	925	1,722	41,004	33	⁽⁶⁾ 135
Total Commercial	61,506	1,229	2,222	64,957	45	173
Private Individuals - Housing Loans	23,030	⁽⁵⁾ 330	-	23,360	298	79
Private Individuals - Other Loans	22,784	302	57	23,143	62	⁽⁶⁾ 150
Total Public - Activity in Israel	107,320	1,861	2,279	111,460	405	402
Banks in Israel	657	-	-	657	-	-
Government of Israel	518	-	-	518	-	-
Total Activity in Israel	108,495	1,861	2,279	112,635	405	402
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	7,643	-	209	7,852	-	-
Commercial - Other	13,886	220	248	14,354	-	21
Total Commercial	21,529	220	457	22,206	-	21
Private Individuals	1,513	4	2	1,519	2	14
Total Public - Activity Outside of Israel	23,042	224	459	23,725	2	35
Foreign banks	4,250	-	-	4,250	-	-
Foreign governments	27	-	-	27	-	-
Total Activity Outside of Israel	27,319	224	459	28,002	2	35
Total public	130,362	2,085	2,738	135,185	407	437
Total banks	4,907	-	-	4,907	-	-
Total governments	545	-	-	545	-	-
Total	135,814	2,085	2,738	140,637	407	437

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		
				Unimpaired debts – additional information		
				In Arrears In Arrears		
				of 90 Days of 30 to 89		
				or More ⁽³⁾ Days ⁽⁴⁾		
				Total		
				In NIS millions		
Lending Activity in Israel						
Public - Commercial						
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
Total Commercial	63,219	1,054	2,384	66,657	58	178
Private Individuals - Housing Loans	25,290	⁽⁵⁾ 320	-	25,610	292	73
Private Individuals - Other Loans	25,458	376	61	25,895	82	190
Total Public - Activity in Israel	113,967	1,750	2,445	118,162	432	441
Banks in Israel	130	-	-	130	-	-
Government of Israel	618	-	-	618	-	-
Total Activity in Israel	114,715	1,750	2,445	118,910	432	441
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	7,990	64	128	8,182	-	1
Commercial - Other	14,284	307	370	14,961	1	1
Total Commercial	22,274	371	498	23,143	1	2
Private Individuals	1,591	8	-	1,599	7	2
Total Public - Activity Outside of Israel	23,865	379	498	24,742	8	4
Foreign banks	4,960	-	-	4,960	-	-
Foreign governments	119	-	-	119	-	-
Total Activity Outside of Israel	28,944	379	498	29,821	8	4
Total public	137,832	2,129	2,943	142,904	440	445
Total banks	5,090	-	-	5,090	-	-
Total governments	737	-	-	737	-	-
Total	143,659	2,129	2,943	148,731	440	445

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 134 million are classified as unimpaired problematic debts (June 30, 2016 - NIS 146 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 (June 30, 2016 - NIS 11 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					
June 30, 2017					
	Balance ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	23	12	112	135	2,584
Construction and Real Estate - Real Estate Activity	84	5	147	231	1,203
Financial Services	648	51	-	648	765
Commercial - Other	532	145	451	983	4,139
Total Commercial	1,287	213	710	1,997	8,691
Private Individuals - Other Loans	15	3	62	77	448
Total Public - Activity in Israel	1,302	216	772	2,074	9,139
Total Activity in Israel	1,302	216	772	2,074	9,139
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	-	-	70	70	505
Commercial - Other	23	10	372	395	528
Total Commercial	23	10	442	465	1,033
Private Individuals	-	-	-	-	1
Total Public - Activity Outside of Israel	23	10	442	465	1,034
Total Activity Outside of Israel	23	10	442	465	1,034
Total public	1,325	226	1,214	2,539	10,173
Total	1,325	226	1,214	2,539	10,173
Of which:					
Measured according to present value of cash flows	949	195	296	1,245	
Debts under troubled debt restructurings	1,062	96	868	1,930	

For footnotes see page 171.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

Unaudited					
June 30, 2016					
	Balance ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	47	22	56	103	3,451
Construction and Real Estate - Real Estate Activity	84	7	212	296	1,256
Financial Services	96	15	5	101	296
Commercial - Other	1,163	399	559	1,722	4,919
Total Commercial	1,390	443	832	2,222	9,922
Private Individuals - Other Loans	15	4	42	57	431
Total Public - Activity in Israel	1,405	447	874	2,279	10,353
Total Activity in Israel	1,405	447	874	2,279	10,353
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	14	-	195	209	844
Commercial - Other	98	28	150	248	422
Total Commercial	112	28	345	457	1,266
Private Individuals	2	-	-	2	4
Total Public - Activity Outside of Israel	114	28	345	459	1,270
Total Activity Outside of Israel	114	28	345	459	1,270
Total public	1,519	475	1,219	2,738	11,623
Total	1,519	475	1,219	2,738	11,623
Of which:					
Measured according to present value of cash flows	752	312	309	1,061	
Debts under troubled debt restructurings	1,100	296	691	1,791	

For footnotes see 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 ⁽¹⁾ of impaired debts in respect of which specific allowance exist ⁽²⁾	Balance of specific allowance ⁽²⁾	Balance ⁽¹⁾ of impaired debts for which specific allowance do not exist ⁽²⁾	Total balance ⁽¹⁾ of Impaired Debts	Contractual principal amount of impaired debts ⁽³⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
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
Total Commercial	1,661	363	723	2,384	9,559
Private Individuals - Other Loans	15	3	46	61	431
Total Public - Activity in Israel	1,676	366	769	2,445	9,990
Total Activity in Israel	1,676	366	769	2,445	9,990
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	-	-	128	128	637
Commercial - Other	80	23	290	370	553
Total Commercial	80	23	418	498	1,190
Private Individuals	-	-	-	-	1
Total Public - Activity Outside of Israel	80	23	418	498	1,191
Total Activity Outside of Israel	80	23	418	498	1,191
Total public	1,756	389	1,187	2,943	11,181
Total	1,756	389	1,187	2,943	11,181
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 June 30					
	2017			2016		
	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	137	-	-	113	-	-
Construction and Real Estate - Real Estate Activity	237	2	2	313	1	1
Financial Services	647	-	-	105	1	1
Commercial - Other	1,094	6	4	1,760	6	5
Total Commercial	2,115	8	6	2,291	8	7
Private Individuals - Other Loans	78	-	-	60	-	-
Total Public - Activity in Israel	2,193	8	6	2,351	8	7
Total Activity in Israel	2,193	8	6	2,351	8	7
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	87	1	1	228	1	1
Commercial - Other	294	2	-	232	2	-
Total Commercial	381	3	1	460	3	1
Private Individuals	-	-	-	4	-	-
Total Public - Activity Outside of Israel	381	3	1	464	3	1
Total Activity Outside of Israel	381	3	1	464	3	1
Total	2,574	(3)11	7	2,815	(3)11	8

For footnotes see next page.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

B. AVERAGE BALANCE AND INTEREST INCOME (CONTINUED)

Unaudited						
Six months ended June 30						
	2017			2016		
	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis	Average balance of Impaired Debts ⁽¹⁾	Recorded Interest Income ⁽²⁾	Of which: recorded on cash basis
In NIS millions						
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	143	1	-	120	1	1
Construction and Real Estate - Real Estate Activity	245	3	3	323	3	2
Financial Services	652	5	4	110	1	1
Commercial - Other	1,198	12	8	1,796	10	7
Total Commercial	2,238	21	15	2,349	15	11
Private Individuals - Other Loans	80	1	1	65	-	-
Total Public - Activity in Israel	2,318	22	16	2,414	15	11
Total Activity in Israel	2,318	22	16	2,414	15	11
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	107	1	1	242	3	2
Commercial - Other	377	4	-	235	3	-
Total Commercial	484	5	1	477	6	2
Total Public - Activity Outside of Israel	484	5	1	479	6	2
Total Activity Outside of Israel	484	5	1	479	6	2
Total	2,802	(3)27	17	2,893	(3)21	13

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 25 million and NIS 53 million for the three and six months ended June 30, 2017 (NIS 30 million and NIS 63 million for the three and six months ended June 30, 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					
June 30, 2017					
Recorded amount					
	Not accruing interest income	Accruing debts ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	25	-	-	43	68
Construction and Real Estate - Real Estate Activity	93	-	-	20	113
Financial Services	594	-	-	51	645
Commercial - Other	595	-	2	134	731
Total Commercial	1,307	-	2	248	1,557
Private Individuals - Other Loans	29	-	-	24	53
Total Public - Activity in Israel	1,336	-	2	272	1,610
Total Activity in Israel	1,336	-	2	272	1,610
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	22	-	-	21	43
Commercial - Other	25	-	-	252	277
Total Commercial	47	-	-	273	320
Total Public - Activity Outside of Israel	47	-	-	273	320
Total Activity Outside of Israel	47	-	-	273	320
Total	1,383	-	2	545	1,930

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at June 30, 2017, to NIS 27 million (June 30, 2016 - NIS 44 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					
June 30, 2016					
Recorded amount					
	Not accruing interest income	Accruing debts ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	9	-	-	8	17
Construction and Real Estate - Real Estate Activity	147	-	2	35	184
Financial Services	92	-	-	1	93
Commercial - Other	1,064	-	2	282	1,348
Total Commercial	1,312	-	4	326	1,642
Private Individuals - Other Loans	19	-	1	29	49
Total Public - Activity in Israel	1,331	-	5	355	1,691
Total Activity in Israel	1,331	-	5	355	1,691
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	23	-	-	-	23
Commercial - Other	6	-	-	71	77
Total Commercial	29	-	-	71	100
Total Public - Activity Outside of Israel	29	-	-	71	100
Total Activity Outside of Israel	29	-	-	71	100
Total	1,360	-	5	426	1,791

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 ⁽¹⁾ , in arrears for 90 days or more	Accruing debts ⁽¹⁾ , in Arrears for 30 to 89 Days	Accruing debts ⁽¹⁾ not in arrears	Total ⁽²⁾
In NIS millions					
Lending Activity in Israel					
Public - Commercial					
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
Total Commercial	1,531	-	3	312	1,846
Private Individuals - Other Loans	21	-	1	26	48
Total Public - Activity in Israel	1,552	-	4	338	1,894
Total Activity in Israel	1,552	-	4	338	1,894
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	21	-	-	-	21
Commercial - Other	2	-	15	192	209
Total Commercial	23	-	15	192	230
Total Public - Activity Outside of Israel	23	-	15	192	230
Total Activity Outside of Israel	23	-	15	192	230
Total	1,575	-	19	530	2,124

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

Unaudited						
Three months ended June 30						
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	22	6	5	22	1	1
Construction and Real Estate - Real Estate Activity	3	1	1	2	(1)₪	(1)₪
Financial Services	2	(1)₪	(1)₪	2	(1)₪	(1)₪
Commercial - Other	131	12	11	104	182	180
Total Commercial	158	19	17	130	183	181
Private Individuals - Other Loans	728	17	17	571	7	6
Total Public - Activity in Israel	886	36	34	701	190	187
Total Activity in Israel	886	36	34	701	190	187
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1	21	21	-	-	-
Commercial - Other	3	61	61	2	44	44
Total Commercial	4	82	82	2	44	44
Total Public - Activity Outside of Israel	4	82	82	2	44	44
Total Activity Outside of Israel	4	82	82	2	44	44
Total	890	118	116	703	234	231

Footnote:

(1) An amount lower than NIS 1 million.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

Unaudited						
Six months ended June 30						
	2017	Debt restructuring performed			2016	
		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	55	12	11	54	4	4
Construction and Real Estate - Real Estate Activity	5	2	2	4	2	2
Financial Services	2	(1)	(1)	2	(1)	(1)
Commercial - Other	237	28	27	204	194	192
Total Commercial	299	42	40	264	200	198
Private Individuals - Other Loans	1,483	30	29	1,183	16	14
Total Public - Activity in Israel	1,782	72	69	1,447	216	212
Total Activity in Israel	1,782	72	69	1,447	216	212
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1	21	21	1	1	1
Commercial – Other	3	61	61	2	44	44
Total Commercial	4	82	82	3	45	45
Total Public - Activity Outside of Israel	4	82	82	3	45	45
Total Activity Outside of Israel	4	82	82	3	45	45
Total	1,786	154	151	1,450	261	257

Footnote:

(1) An amount lower than NIS 1 million.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Three months ended June 30			
	2017		2016	
	Failure of restructured debts ⁽¹⁾			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
In NIS millions				
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	12	9	2	(2)_
Construction and Real Estate - Real Estate Activity	1	(2)_	-	-
Commercial - Other	32	3	28	2
Total Commercial	45	12	30	2
Private Individuals - Other	398	3	329	2
Total Public - Activity in Israel	443	15	359	4
Total Activity in Israel	443	15	359	4
Lending Activity Outside of Israel				
Public - Commercial				
Construction and Real Estate	1	12	-	-
Total Commercial	1	12	-	-
Total Public - Activity Outside of Israel	1	12	-	-
Total Activity Outside of Israel	1	12	-	-
Total	444	27	359	4

For footnotes see next page.

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	Unaudited			
	Six months ended June 30			
	2017		2016	
	Failure of restructured debts ⁽¹⁾			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
In NIS millions				
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	17	9	6	(2)_
Construction and Real Estate - Real Estate Activity	2	1	1	(2)_
Commercial - Other	58	4	55	43
Total Commercial	77	14	62	43
Private Individuals - Other	799	7	666	5
Total Public - Activity in Israel	876	21	728	48
Total Activity in Israel	876	21	728	48
Lending Activity Outside of Israel				
Public - Commercial				
Construction and Real Estate	1	12	-	-
Total Commercial	1	12	-	-
Total Public - Activity Outside of Israel	1	12	-	-
Total Activity Outside of Israel	1	12	-	-
Total	877	33	728	48

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrear.

(2) An amount lower than NIS 1 million.

3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent years, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

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)

(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			
	June 30, 2017				December 31, 2016			
	Commercial	Private Individuals		Total	Commercial	Private Individuals		Total
		Housing Loans	Other Loans			Housing Loans	Other Loans	
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	96.0%	98.9%	98.3%	97.0%	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	1.3%	1.1%	1.4%	1.3%	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	2.7%	-	0.3%	1.7%	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)	35.5%	55.2%	99.6%	43.0%	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)⁽¹⁾ ratio, manner of repayment and type of interest:

			Balance of housing loans		
			Of which:		
		Total	Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
In NIS millions					
Unaudited					
June 30, 2017					
First degree pledge: financing ratio	Up to 60%	17,571	371	10,564	196
	Over 60%	9,015	70	5,700	43
Second degree pledge or without pledge		768	25	282	1,860
Total		(2)27,354	466	16,546	2,099
Unaudited					
June 30, 2016					
First degree pledge: financing ratio	Up to 60%	14,701	290	9,020	177
	Over 60%	7,949	62	5,100	102
Second degree pledge or without pledge		858	20	423	2,149
Total		(2)23,508	372	14,543	2,428
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
Total		(2)25,764	395	15,762	1,997

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 262 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (June 30, 2016 - NIS 250 million, December 31, 2016 - NIS 266 million).

14. ADDITIONAL INFORMATION REGARDING CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

C. INFORMATION REGARDING THE PURCHASE AND SALE OF DEBTS

DETAILS REGARDING THE CONSIDERATION PAID OR RECEIVED FOR THE PURCHASE OR SALE OF LOANS

Unaudited										
	Credit to the public				Total	Credit to the public				
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to banks and governments		Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Credit to banks and governments	Total
In NIS millions										
	For the three months ended June 30, 2017					For the three months ended June 30, 2016				
Loans acquired	329	-	-	124	453	271	-	-	5	276
Loans sold	50	-	116	-	166	264	-	-	-	264
	For the six months ended June 30, 2017					For the six months ended June 30, 2016				
Loans acquired	824	-	-	124	948	549	-	-	9	558
Loans sold	95	-	116	-	211	424	-	-	-	424

For details regarding profit (loss) net in respect of loans sold, see Note 3.

D. OFF BALANCE SHEET FINANCIAL INSTRUMENTS⁽³⁾

	Unaudited		Unaudited		Audited	
	Balance ⁽¹⁾	Provision ⁽²⁾	Balance ⁽¹⁾	Provision ⁽²⁾	Balance ⁽¹⁾	Provision ⁽²⁾
	June 30, 2017		June 30, 2016		December 31, 2016	
in NIS millions						
Transactions in which the balance represents credit risk:						
Letters of credit	1,140	1	1,352	8	1,195	4
Credit guarantees	2,316	24	2,497	23	2,544	23
Guarantees for home purchasers	6,354	2	6,403	2	6,861	2
Other guarantees and obligations	7,811	60	5,714	35	6,240	55
Unutilized facilities for transactions in derivative instruments	915	-	939	-	954	-
Unutilized facilities credit line for credit cards	22,420	26	21,082	24	21,922	25
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,860	27	8,702	25	8,986	27
Irrevocable commitments to extend credit approved but not yet granted ⁽³⁾	22,111	48	22,262	59	22,470	54
Commitment to issue guarantees	5,646	16	4,051	4	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

Unaudited							
June 30, 2017							
Israeli currency			Foreign currency ⁽¹⁾			Non monetary items	Total
Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies			
in NIS millions							
Assets							
Cash and deposits with banks	23,539	48	3,748	814	653	-	28,802
Securities	17,070	3,368	12,702	744	19	925	34,828
Securities borrowed or purchased under resale agreements	261	-	-	-	-	-	261
Credit to the public, net	102,210	15,827	24,075	1,716	389	-	144,217
Credit to the Government	225	209	187	325	-	-	946
Investments in affiliated companies	-	2	-	-	-	142	144
Buildings and equipment	-	-	-	-	-	2,249	2,249
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,835	115	428	348	129	351	3,206
Other assets	1,741	23	941	31	388	428	3,552
Assets held for sale	-	-	-	-	-	28	28
Total assets	146,881	19,592	42,081	3,978	1,578	4,283	218,393
Liabilities							
Deposits from the public	112,664	5,053	45,217	6,284	2,380	-	171,598
Deposits from banks	2,820	4	1,599	73	10	-	4,506
Deposits from the Government	152	43	102	-	-	-	297
Securities loaned or sold under repurchase agreements	-	-	3,116	-	-	-	3,116
Bonds and Subordinated debt notes	2,667	5,947	-	82	-	-	8,696
Liabilities in respect of derivative instruments	2,638	186	372	255	97	354	3,902
Other liabilities	9,772	202	475	21	41	349	10,860
Total liabilities	130,713	11,435	50,881	6,715	2,528	703	202,975
Difference	16,168	8,157	(8,800)	(2,737)	(950)	3,580	15,418
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(12,453)	(3,069)	11,901	2,679	942	-	-
Options in the money, net (in terms of underlying asset)	(214)	-	135	92	(13)	-	-
Options out of the money, net (in terms of underlying asset)	42	-	102	(108)	(36)	-	-
Total	3,543	5,088	3,338	(74)	(57)	3,580	15,418
Options in the money, net (discounted par value)	(351)	-	279	92	(20)	-	-
Options out of the money, net (discounted par value)	237	-	224	(373)	(88)	-	-

Footnote:

(1) Includes those linked to foreign currency.

15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

Unaudited							
June 30, 2016							
	Israeli currency		Foreign currency ⁽¹⁾			Non monetary items	Total
	Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies		
in NIS millions							
Assets							
Cash and deposits with banks	21,312	57	4,061	649	705	-	26,784
Securities	16,550	4,240	15,710	627	-	926	38,053
Securities borrowed or purchased under resale agreements	288	-	-	-	-	-	288
Credit to the public, net	89,015	15,475	26,072	1,979	551	-	133,092
Credit to the Government	213	202	9	122	-	-	546
Investments in affiliated companies	-	2	-	-	-	133	135
Buildings and equipment	-	-	-	-	-	2,290	2,290
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,790	59	1,379	139	332	113	3,812
Other assets	1,718	14	1,074	123	393	391	3,713
Assets held for sale	-	-	-	-	-	9	9
Total assets	130,886	20,049	48,305	3,639	1,981	4,022	208,882
Liabilities							
Deposits from the public	100,061	5,539	⁽²⁾ 47,161	6,849	2,545	-	162,155
Deposits from banks	2,511	5	1,882	126	15	-	4,539
Deposits from the Government	141	64	⁽²⁾ 121	-	-	-	326
Securities loaned or sold under repurchase agreements	-	-	3,621	-	-	-	3,621
Bonds and Subordinated debt notes	2,045	6,634	-	86	-	-	8,765
Liabilities in respect of derivative instruments	2,138	132	1,448	261	340	119	4,438
Other liabilities	9,513	223	629	105	54	333	10,857
Total liabilities	116,409	12,597	54,862	7,427	2,954	452	194,701
Difference	14,477	7,452	(6,557)	(3,788)	(973)	3,570	14,181
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(11,955)	(2,523)	9,993	3,638	847	-	-
Options in the money, net (in terms of underlying asset)	36	-	(158)	71	51	-	-
Options out of the money, net (in terms of underlying asset)	(56)	-	35	50	(29)	-	-
Total	2,502	4,929	3,313	(29)	(104)	3,570	14,181
Options in the money, net (discounted par value)	(33)	-	(211)	165	79	-	-
Options out of the money, net (discounted par value)	(757)	-	769	67	(79)	-	-

Footnotes:

(1) Includes those linked to foreign currency.

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

15. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

Audited							
December 31, 2016							
Israeli currency			Foreign currency ⁽¹⁾			Non monetary items	Total
Non-linked	Linked to the CPI	In US\$	In Euro	In other currencies			
in NIS millions							
Assets							
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
Total assets	140,573	20,211	49,507	3,207	1,657	4,422	219,577
Liabilities							
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
Bonds and 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
Total liabilities	125,354	12,116	56,710	7,148	2,525	788	204,641
Difference	15,219	8,095	(7,203)	(3,941)	(868)	3,634	14,936
Effect of non-hedging derivative instruments:							
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	-	-
Total	2,997	5,019	3,402	12	(128)	3,634	14,936
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	-	-

Footnote:

(1) Includes those linked to foreign currency.

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. COMPOSITION - CONSOLIDATED

Unaudited					
June 30, 2017					
	Book value	Fair value			Total
		Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾	
in NIS millions					
Financial assets					
Cash and deposits with banks	28,802	8,623	-	20,206	28,829
Securities ⁽²⁾	34,828	20,576	13,647	870	35,093
Securities borrowed or purchased under resale agreements	261	-	-	261	261
Credit to the public, net	144,217	2,561	2	141,832	144,395
Credit to Governments	946	-	-	984	984
Assets in respect of derivative instruments	3,206	380	1,857	969	3,206
Other financial assets	1,654	209	26	1,419	1,654
Total financial assets	(3) 213,914	32,349	15,532	166,541	214,422
Financial liabilities					
Deposits from the public	171,598	17,633	117,072	37,203	171,908
Deposits from banks	4,506	-	3,526	981	4,507
Deposits from the Government	297	-	168	136	304
Securities loaned or sold under repurchase agreements	3,116	-	-	3,227	3,227
Bonds and Subordinated debt notes	8,696	7,501	235	1,954	9,690
Liabilities in respect of derivative instruments	3,902	379	3,184	339	3,902
Other financial liabilities	7,764	406	24	7,334	7,764
Total financial liabilities	(3) 199,879	25,919	124,209	51,174	201,302
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	87	-	-	87	87

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 45,951 million and NIS 87,796 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 items B and C below.

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. COMPOSITION - CONSOLIDATED (CONTINUED)

Unaudited					
June 30, 2016					
	Book value	Fair value			Total
		Level 1 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾	
in NIS millions					
Financial assets					
Cash and deposits with banks	26,784	9,327	-	17,474	26,801
Securities ⁽²⁾	38,053	21,212	16,448	842	38,502
Securities borrowed or purchased under resale agreements	288	-	-	288	288
Credit to the public, net	133,092	2,737	1	130,247	132,985
Credit to Governments	546	-	-	613	613
Assets in respect of derivative instruments	3,812	135	2,367	1,310	3,812
Other financial assets	1,730	196	21	1,513	1,730
Financial assets held for sale	-	-	-	-	-
Total financial assets	⁽³⁾ 204,305	33,607	18,837	152,287	204,731
Financial liabilities					
Deposits from the public	⁽⁴⁾ 162,155	18,927	⁽⁴⁾ 109,891	33,698	162,516
Deposits from banks	4,539	-	4,278	278	4,556
Deposits from the Government	⁽⁴⁾ 326	-	⁽⁴⁾ 223	117	340
Securities loaned or sold under repurchase agreements	3,621	-	-	3,887	3,887
Bonds and Subordinated debt notes	8,765	7,658	266	2,070	9,994
Liabilities in respect of derivative instruments	4,438	135	3,993	310	4,438
Other financial liabilities	7,437	342	28	7,067	7,437
Total financial liabilities	⁽³⁾ 191,281	27,062	118,679	47,427	193,168
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	77	-	-	77	77

Footnotes:

- (1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.
- (2) For further details of the stated balance sheet amount and the fair value of securities, see Note 5.
- (3) Of which: assets and liabilities in the amount of NIS 49,768 million and NIS 84,273 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.
- (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 ⁽¹⁾	Level 2 ⁽¹⁾	Level 3 ⁽¹⁾	
in NIS millions					
Financial assets					
Cash and deposits with banks	29,311	8,886	-	20,448	29,334
Securities ⁽²⁾	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
Total financial assets	(3)215,152	34,591	18,648	161,657	214,896
Financial liabilities					
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
Bonds and Subordinated debt 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
Total financial liabilities	(3)201,537	27,392	123,714	51,808	202,914
Off-balance sheet financial instruments					
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 5.
- (3) Of which: assets and liabilities in the amount of NIS 50,609 million and NIS 87,982 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 item B and C below.

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 June 30, 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						
Assets						
Available for sale securities						
Of the Israeli Government	15,045	1,640	-	-	16,685	16,685
Of foreign governments	-	715	-	-	715	715
Of Israeli financial institutions	10	46	-	-	56	56
Of foreign financial institutions	-	696	-	-	696	696
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	6,749	-	-	6,749	6,749
Of others in Israel	185	108	-	-	293	293
Of others abroad	-	1,055	-	-	1,055	1,055
Shares	38	-	-	-	38	38
Total available-for-sale securities	15,278	11,009	-	-	26,287	26,287
Trading Securities						
Of the Israeli Government	1,404	440	-	-	1,844	1,844
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	11	-	-	-	11	11
Of foreign financial institutions	-	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	62	-	-	62	62
Of others in Israel	39	4	-	-	43	43
Of others abroad	-	20	-	-	20	20
Shares	17	-	-	-	17	17
Total trading securities	1,471	526	-	-	1,997	1,997
Credit to the public in respect of securities loaned	2,561	2	-	-	2,563	2,563
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	155	-	155	155
Other Interest Rate Contracts	-	1,154	230	-	1,384	1,384
Foreign Currency Contracts	26	678	584	-	1,288	1,288
Shares Contracts	354	25	-	-	379	379
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	380	1,857	969	-	3,206	3,206
Other	-	26	-	-	26	26
Assets in respect of the "Maof" market operations	209	-	-	-	209	209
Total assets	19,899	13,420	969	-	34,288	34,288
Liabilities						
Deposits from the public in respect of securities borrowed						
CLN deposits	-	-	300	-	300	300
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	167	-	167	167
Other Interest Rate Contracts	-	1,592	-	-	1,592	1,592
Foreign Currency Contracts	25	1,592	172	-	1,789	1,789
Shares Contracts	354	-	-	-	354	354
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	379	3,184	339	-	3,902	3,902
Other	-	24	-	-	24	24
Commitments in respect of the "Maof" market operations	209	-	-	-	209	209
Short sales of securities	197	-	-	-	197	197
Total liabilities	1,920	3,224	639	-	5,783	5,783

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

Unaudited						
June 30, 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	13,716	1,412	-	-	15,128	15,128
Of foreign governments	204	521	-	-	725	725
Of Israeli financial institutions	11	43	-	-	54	54
Of foreign financial institutions	-	1,403	-	-	1,403	1,403
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	7,564	-	-	7,564	7,564
Of others in Israel	181	193	-	-	374	374
Of others abroad	-	1,907	-	-	1,907	1,907
Shares	77	-	-	-	77	77
Total available-for-sale securities	14,189	13,043	-	-	27,232	27,232
Trading Securities						
Of the Israeli Government	2,773	342	-	-	3,115	3,115
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	-	-	-	-	-	-
Of foreign financial institutions	-	1	-	-	1	1
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	56	-	-	56	56
Of others in Israel	6	8	-	-	14	14
Of others abroad	-	14	-	-	14	14
Shares	6	1	-	-	7	7
Total trading securities	2,785	422	-	-	3,207	3,207
Credit to the public in respect of securities loaned	2,737	1	-	-	2,738	2,738
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	182	-	182	182
Other Interest Rate Contracts	-	1,819	319	-	2,138	2,138
Foreign Currency Contracts	16	522	809	-	1,347	1,347
Shares Contracts	119	26	-	-	145	145
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	135	2,367	1,310	-	3,812	3,812
Other	-	21	-	-	21	21
Assets in respect of the "Maof" market operations	196	-	-	-	196	196
Total assets	20,042	15,854	1,310	-	37,206	37,206
Liabilities						
Deposits from the public in respect of securities borrowed						
CLN deposits	-	-	325	-	325	325
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	187	-	187	187
Other Interest Rate Contracts	-	2,673	-	-	2,673	2,673
Foreign Currency Contracts	16	1,320	123	-	1,459	1,459
Shares Contracts	119	-	-	-	119	119
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	135	3,993	310	-	4,438	4,438
Other	-	28	-	-	28	28
Commitments in respect of the "Maof" market operations	196	-	-	-	196	196
Short sales of securities	146	-	-	-	146	146
Total liabilities	1,382	4,042	635	-	6,059	6,059

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

Audited December 31, 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 (MBS) or Assets -backed-securities (ABS)	-	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
Total available-for-sale securities	15,188	13,675	-	-	28,863	28,863
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 (MBS) or Assets -backed-securities (ABS)	-	61	-	-	61	61
Of others in Israel	46	8	-	-	54	54
Of others abroad	-	65	-	-	65	65
Shares	13	-	-	-	13	13
Total trading securities	2,497	338	-	-	2,835	2,835
Credit to the public in respect of securities loaned	3,336	1	-	-	3,337	3,337
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 Currency 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
Assets in respect of the "Maof" market operations	298	-	-	-	298	298
Total assets	21,684	16,110	843	-	38,637	38,637
Liabilities						
Deposits from the public in respect of securities borrowed						
CLN deposits	1,185	20	-	-	1,205	1,205
	-	-	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 Currency 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
Commitments in respect of the "Maof" market operations	298	-	-	-	298	298
Short sales of securities	285	-	-	-	285	285
Total liabilities	2,133	2,958	614	-	5,705	5,705

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED (CONTINUED)

2. ITEMS MEASURED ACCORDING TO FAIR VALUE NOT ON A RECURRING BASIS

Unaudited						
June 30, 2017						
				Total fair value	Profit (Loss) for the three months ended June 30, 2017	Profit (Loss) for the six months ended June 30, 2017
	Level 1	Level 2	Level 3			
In NIS millions						
Impaired credit the collection of which is collateral dependent	-	-	1,294	1,294	(72)	(88)
Other	-	-	17	17	-	-
Unaudited						
June 30, 2016						
				Total fair value	Profit (Loss) for the three months ended June 30, 2016	Profit (Loss) for the six months ended June 30, 2016
	Level 1	Level 2	Level 3			
In NIS millions						
Impaired credit the collection of which is collateral dependent	-	-	1,677	1,677	(4)	(53)
Other	-	-	16	16	-	-
Audited						
December 31, 2016						
				Total fair value		Loss for the year ended December 31, 2016
	Level 1	Level 2	Level 3			
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 JUNE 30, 2017

Unaudited									
	Fair value as at March 31, 2017	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at June 30, 2017	Unrealized gains (losses) in respect of held instruments as at June 30, 2017
in NIS millions									
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(3)	⁽¹⁾ (21)	-	-	12	-	-	(12)	⁽¹⁾ (19)
Other Interest Rate Contracts	228	⁽¹⁾ 9	-	-	8	(17)	2	230	⁽¹⁾ 9
Foreign Currency Contracts	409	⁽¹⁾ 62	-	(48)	21	(26)	(6)	412	⁽¹⁾ 57
Total	634	50	-	(48)	41	(43)	(4)	630	47
Liabilities									
CLN Deposits	(309)	⁽²⁾ 1	-	-	8	-	-	(300)	⁽²⁾ 1

2. FOR A PERIOD OF THREE MONTHS ENDED JUNE 30, 2016

Unaudited									
	Fair value as at March 31, 2016	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at June 30, 2016	Unrealized gains (losses) in respect of held instruments as at June 30, 2016
in NIS millions									
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	19	⁽¹⁾ (30)	-	-	6	-	-	(5)	⁽¹⁾ (34)
Other Interest Rate Contracts	257	⁽¹⁾ 96	-	-	(53)	(1)	20	319	⁽¹⁾ 96
Foreign Currency Contracts	576	⁽¹⁾ 33	-	(31)	112	(8)	4	686	⁽¹⁾ 27
Total	852	99	-	(31)	65	(9)	24	1,000	89
Liabilities									
CLN Deposits	(339)	⁽²⁾ (4)	⁽³⁾ (21)	-	⁽³⁾ 39	-	-	(325)	⁽²⁾ (4)

Footnotes:

- (1) Included in the statement of profit and loss in the item "Non-interest financing income".
 (2) Included in the statement of profit and loss in the item "Interest income and expenses".
 (3) Reclassified – expansion of the movement details.

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED (CONTINUED)

3. FOR A PERIOD OF SIX MONTHS ENDED JUNE 30, 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	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at June 30, 2017	Unrealized gains (losses) in respect of held instruments as at June 30, 2017
in NIS millions									
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	18	⁽¹⁾ (16)	-	-	(14)	-	-	(12)	⁽¹⁾ (13)
Other Interest Rate Contracts	247	⁽¹⁾ 4	-	-	8	(34)	5	230	⁽¹⁾ 4
Foreign Currency Contracts	283	⁽¹⁾ 356	-	(114)	(31)	(86)	4	412	⁽¹⁾ 342
Total	548	344	-	(114)	(37)	(120)	9	630	333
Liabilities									
CLN Deposits	(319)	⁽²⁾ (1)	-	-	20	-	-	(300)	⁽²⁾ (1)

4. FOR A PERIOD OF SIX MONTHS ENDED JUNE 30, 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	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at June 30, 2016	Unrealized gains (losses) in respect of held instruments as at June 30, 2016
in NIS millions									
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	19	⁽¹⁾ (13)	-	-	(11)	-	-	(5)	⁽¹⁾ (13)
Other Interest Rate Contracts	154	⁽¹⁾ 244	-	-	(81)	(8)	10	319	⁽¹⁾ 244
Foreign Currency Contracts	230	⁽¹⁾ 605	-	(93)	(26)	(31)	1	686	⁽¹⁾ 600
Total	403	836	-	(93)	(118)	(39)	11	1,000	831
Liabilities									
CLN Deposits	(345)	⁽²⁾ (7)	⁽³⁾ (21)	-	⁽³⁾ 48	-	-	(325)	⁽²⁾ (6)

Footnotes:

(1) Included in the statement of profit and loss in the item "Non-interest financing income".

(2) Included in the statement of profit and loss in the item "Interest income and expenses".

16. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN LEVEL 3 - CONSOLIDATED (CONTINUED)

5. FOR THE YEAR ENDED DECEMBER 31, 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	Settlements	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 Currency Contracts	230	⁽¹⁾ 320	-	(99)	(172)	4	-	283	⁽¹⁾ 229
Total	403	476	-	(99)	(225)	(9)	2	548	396
Liabilities									
CLN Deposits	(345)	⁽²⁾ (14)	(29)	-	69	-	-	(319)	⁽²⁾ (14)

Footnotes:

(1) Included in the statement of profit and loss in the item "Non-interest financing income"

(2) Included in the statement of profit and loss in the item "Interest income and expenses"

D. TRANSFERS BETWEEN HIERARCHY LEVELS OF FAIR VALUE

Immaterial transfers to or from level 3 were made in the first half 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 June 30, 2017	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	1,294	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	17	Valuation by an expert assessor	Company value, real estate market inputs	
B. Items measured at fair value on a recurring basis				
Net Assets (Liabilities) in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	(12)	Discounted cash flow	The interest curve in the CPI linked segment	From -0.48% to 1.46% (0.26%)
			Counterparty credit risk (CVA)	From 0.00% to 2.67% (0.47%)
Other Interest Rate Contracts	230	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 15.39% (0.08%)
Foreign Currency Contracts	412	Discounted cash flow	The interest curve in the CPI linked segment	From -0.48% to 1.25% (-0.3%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 5.06% (0.17%)
Liabilities				
CLN Deposits	300	Discounted cash flow	Credit risk of the underlying asset	
Unaudited				
	Fair value as at June 30, 2016	Valuation Techniques	Unobservable inputs	Range (Weighted Average)
	In NIS millions			In %
A. Items measured at fair value not on a recurring basis				
Impaired credit the collection of which is collateral dependent	1,677	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	Valuation by an expert assessor	Company value, real estate market inputs	
B. Items measured at fair value on a recurring basis				
Net Assets (Liabilities) in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	(5)	Discounted cash flow	One year period inflation expectations	From -0.46% to 4.60% (1.34%)
			Counterparty credit risk (CVA)	From 0.00% to 4.74% (0.11%)
Other Interest Rate Contracts	319	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 2.55% (0.24%)
Foreign Currency Contracts	686	Discounted cash flow	One year period inflation expectations	From -0.44% to 4.60% (0.86%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 1.86% (0.03%)
Liabilities				
CLN Deposits	325	Discounted cash flow	Credit risk of the underlying asset	

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 %
A. Items measured at fair value not on a recurring basis				
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. Items measured at fair value on a recurring basis				
Net Assets in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	18	Discounted cash flow	The interest curve in the CPI linked segment	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 Currency Contracts	283	Discounted cash flow	The interest curve in the CPI linked segment	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%)
Liabilities				
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 Dinars.** Note 36 A to the financial statements as of December 31, 2016, includes a description of the acquisition of the minority interests in Dinars, 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. **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 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.
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.
On August 9, 2017, the Court postponed until September 3, 2017, the date for submission of a notice by the Attorney General for the Government as to his intention to take part in the proceedings.
4. **Engagement with international organizations.** Note 36 F to the financial statements as of December 31, 2016, included a description of the notices by VISA Europe regarding the discontinuation of the rebates program relating to members of the organization, and regarding the increase in the clearing commissions charged by it, with effect as from January 1, 2017. Also described was an agreement signed by ICC and VISA Europe with respect to support grants that the company will receive in the years 2016-2019.
On June 30, 2017, ICC and VISA Europe signed an amended support agreement for the years 2017-2021. The scope of the support is based upon goals defined in the agreement.

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. The Stock Exchange has amended the said record.

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.

22. TAXATION

Note 8 C (1) to the financial statements as of December 31, 2016, described procedures conducted in the matter of the liability to profits tax on dividend received from a trader. On May 15, 2017, the Bank filed an appeal with the Supreme Court against the decision of the District Court in the matter. Hearing of the appeal is fixed for March 2018.

23. APPROVAL OF A DIVIDEND TO HOLDERS OF PREFERRED SHARES

The General Meeting of Shareholders held on August 8, 2017, resolved to approve a dividend of 6% for the year 2017 to owners of 40,000 cumulative preferred shares of a par value of NIS 0.00504 each. The dividend amounts to ₪24,000 and is expected to be paid on December 31, 2017.

24. INCREASING THE REGISTERED SHARE CAPITAL OF THE BANK

The General Meeting of Shareholders held on August 8, 2017, resolved to increase the registered share capital of the Bank by a par value amount of NIS 35 million (350 million ordinary "A" shares of a par value of NIS 0.1 each), and accordingly amend the Memorandum and Articles of the Bank.

CORPORATE GOVERNANCE, AUDIT, ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

203 Corporate Governance and additional
details – List of tables

204 Corporate governance and audit

204 Board of Directors and Management

204 The internal audit in the Group

205 Involvement with and Contribution
to the Community

206 Additional details regarding the business of the banking corporation and management thereof

206 Discount Group Structure

206 Fixed Assets and Installations

207 The human capital

207 Rating the Liabilities of the Bank
and some of its Subsidiaries

208 Activity of the Group according to
regulatory operating segments –
additional details

213 Credit Card Operations

214 Technological improvements and
innovation

215 Main developments in the Israeli
economy and around the world in the
first half of 2017

219 Legislation and supervision

223 Legal Proceedings

224 Proceedings regarding Authorities

Corporate Governance and additional details - List of tables	Page No.
Developments in the mortgage market	208
New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit	208
The changes in selected share indices recorded during the first half of the years 2016 and 2017	215
The returns on government bonds	216
Changes in the U.S. dollar against selected currencies	216
Changes in selected commodities indexes	216
The changes recorded in investments of the Israeli economy abroad	217
The changes recorded in selected share indices during the first half of 2016 and 2017	218
The changes recorded in selected bond indices during the first half of 2016 and 2017	218
The distribution of the asset portfolio held by the public	219

CORPORATE GOVERNANCE AND AUDIT

BOARD OF DIRECTORS AND MANAGEMENT

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 Messrs. Levin and Biran success in fulfilling their office.

The General Meeting of Shareholders held on August 8, 2017, resolved to appoint as external Directors, within the meaning of the term in the Companies Act, for a period of three years, Messrs. Aharon Abramovich, Baruch Lederman (a re-elected serving Director) and Yehuda Levi (a re-elected serving Director). The said General Meeting resolved to appoint as external Directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301, for a period of three years, Ms. Iris Avner and Messrs. Yaacov Lifshiz and Shaul Kobrinsky (a re-elected serving Director). This subject to the approval or no dissension by the Supervisor of Banks.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first half of 2017, the Board of Directors held 10 meetings. In addition, 39 meetings of committees of the Board of Directors were held.

THE INTERNAL AUDIT IN THE GROUP

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work plans and the considerations at its basis were included in the 2016 Annual Report (pp. 328-330).

Updates. During the second quarter of 2017 the following periodic reports were submitted and discussed:

- 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 discussed by the Audit Committee on May 16, 2017;
- The semiannual report on the activities of the internal audit in the first half of 2017 was submitted on August 2, 2017, and is yet to be discussed by the Audit Committee.

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The volunteer activity within the framework of the "Lema'an" Project continued during the second quarter of 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, the following activities were also conducted in the second quarter of 2017 in the culture and arts field, providing sponsorship and donations.

The support of the Bank continued in the second quarter of 2017, principally as regards education and knowledge among children and youth in various distress situations, principally by "Sprint Discount" – the leading project of Discount Bank.

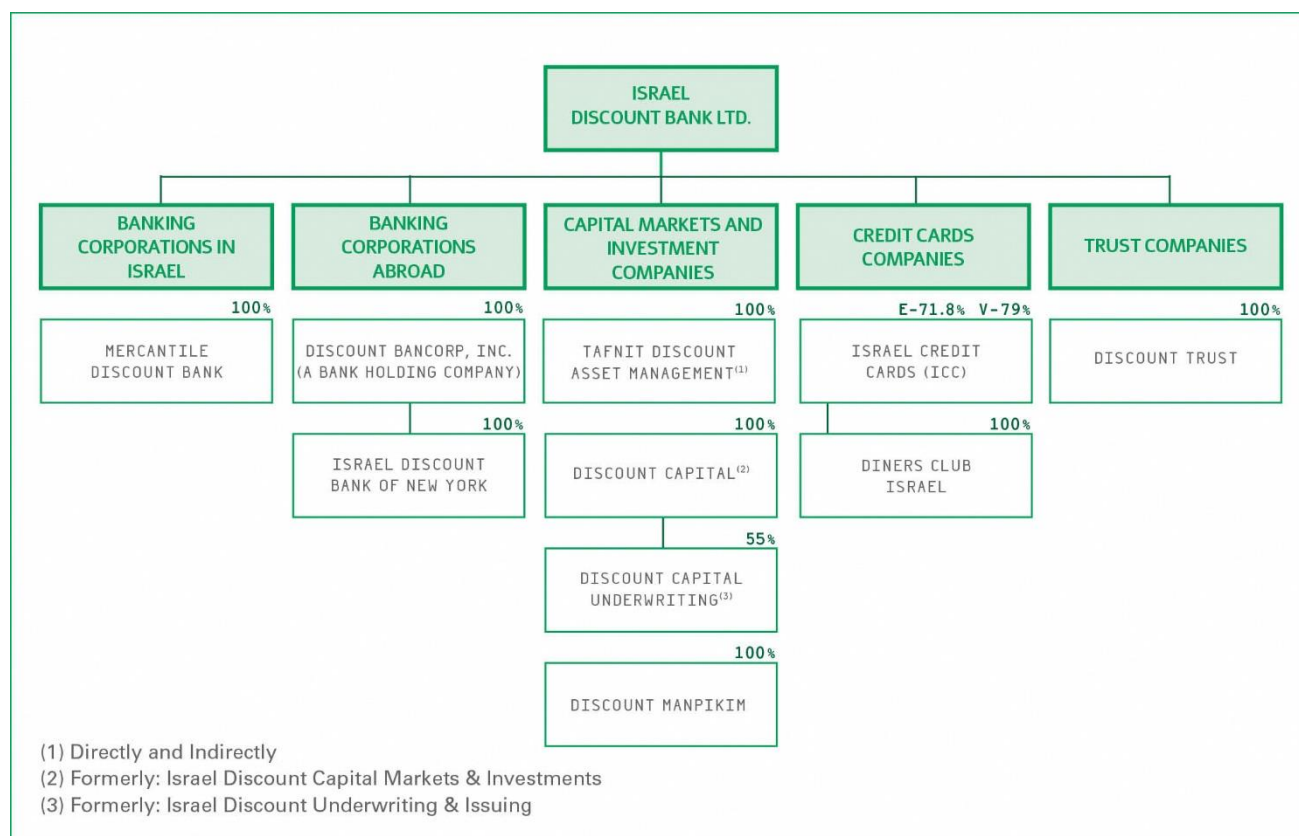
"MAALA" RATING 2017

In June 2017, "Maala" published its rating for 2016. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). The rating is based on criteria detailed in a number of central areas of corporate responsibility: Labor relations, health and balancing; responsibility in purchases; quality of the environment and sustainability; ethical aspects of business processes; diversification and containment; contribution to the community; social involvement of employees; corporate governance; corporate responsibility management and reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

This year, ICC was rated for the first time and was successful in being included in the "Platinum" rating.

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 half of 2017, a gain from the sale of properties of approx. NIS 27 million was recorded, net of the tax effect, compared with approx. 60 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 item 6 to the condensed financial statements.

ACCESSIBILITY FOR HANDICAPPED PERSONS

The Bank continues in making the required accessibility adjustments to its properties (both from the aspect of accessibility to service adjustments and from the aspect of accessibility to infrastructure, properties and environment adjustments), and this within the framework of the fourth stage of execution, the determining date of which is November 1, 2017.

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

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". The move regarding the formation of the "Discount spirit" continued in the second quarter of 2017 – 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 half. 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

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

HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

DEVELOPMENTS IN THE SEGMENT

Branches. At the end of the first half, the Bank has 118 branches in operation. 2 branches (the Neot Rachel Branch and the Rison LeTzion extension) were closed in the second quarter. At the end of the first half of 2017, MDB operated 77 branches (at December 31, 2016 – 78 branches).

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 six months ended June 30		Change in %
	2017	2016	
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	26,102	30,517	(14.5)
Loans from State funds	119	48	147.9

New loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the six months ended June 30,		Change in %	For the year ended December 31,
	2017	2016		2016
	In NIS millions			In NIS millions
From bank funds ⁽¹⁾	2,978	3,305	(9.9)	7,009
From Treasury funds ⁽²⁾	8	2	-	8
Total of new loans	2,986	3,307	(9.7)	7,017
Recycled loans	169	305	(44.6)	503
Total granted	3,155	3,612	(13)	7,520

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 67 million in the first six months of 2017, compared to NIS 68 million as at June 30, 2016 and NIS 128 million in 2016.

(2) Including standing loans in the amount of NIS 2.6 million in the first six months of 2017, compared to NIS 0.9 as at June 30, 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).

Legislative restrictions and regulations

Draft Amendment of Proper Conduct of Banking Business Directive No. 451 in the matter of "maintaining the interest rate of housing loans". On July 12, 2017, the Supervisor of Banks published this Draft Amendment, according to which, the interest rate quoted for a customer who had been granted an approval in principle for a housing loan, would remain in effect for a period of not less than twenty-four days instead of the present twelve days.

PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

The reorganization of the service to wealthy customers, in the investments and wealthy customer wing, established in January 2017, continued in the second quarter of the year.

At the same time, in international banking, the Bank continues to intensify the activity with existing customers and with new immigrants, the implementation of cross-border banking management rules, and segmentation, namely, transferring foreign resident customers to branches and/or the international banking wing specializing in service to such customers.

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 HALF 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 June 30, 2017, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as June 30, 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 May 2017³ to NIS 844 billion, stability 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 stability in the debt stems from a 9% reduction in the debt to foreign residents, from an increase of 1% in the debt to banks, from an increase of 1.6% in the debt to financial institutions and from an increase of 7% 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

³ The most updated data available at the time of submitting the report to print.

by institutional bodies recorded a standstill. 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 47.3% at the end of 2016, to 47.9% at the end of May 2017.

During the period from January to June, the business sector (Israeli corporations) excluding banks and insurance companies, raised funds through the issuance of bonds to the tune of approx. NIS 26 billion (via the Tel Aviv Stock Exchange and by nonmarketable bonds). This is a relatively fast rate compared to 2016, approx. NIS 43 billion, on an annual level.

The margin between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of June 2017 was 1.28%, compared with 1.51% at the end of 2016 and 1.65% at the end of June 2016.

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, alongside an improvement in export data. In addition to the improvement in the said indicators, the Purchase Managers Index published for April 2017, dropped, though it still maintains a high level of 52 points and indicates expectations for expansion in activity of this sector;
- Diamonds – The sector recorded stability in the prices of polished diamonds, though the index is in its lowest level for the past four years. This, while raw diamonds prices enjoy high level and keen demand, explained by the purchasing ability of the Indian market;
- The agricultural sector – The sector continues to demonstrate signs of instability. Agricultural in Israel has been experiencing a crisis in the past two years. The traditional export market of the sector, Russia, which had undergone a serious economic crisis, is now showing signs of stability;
- The commerce sector – The sector is mainly affected by domestic demand, when in the second quarter of 2017 the indicators relating to private consumption continue to be positive despite the slowdown in their growth rate compared to the previous quarter, and are being supported by a strong employment market and the low interest rate prevailing in the market. The Consumer Confidence Index for May 2017 stands at -11% (-16% in February) and indicates an improvement in consumer expectations;
- Real estate sector – for details, see below under "Construction and real estate activity".

ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS

In July 2017, the Research Division of the Bank of Israel updated upwards the growth forecast, according to which the economy is expected to grow at a rate of 3.4% in the current year, and by 3.3% in 2018. This forecast of the Bank of Israel reflects a gradual shifting to growth that is based less on private consumption and more on exports. The continuing increase in the growth rate of exports, inter alia due to the expected recovery in global trading, as well as in investments in the economic sectors. On the other hand, the growth rate of private consumption is expected to slow down, following a long period in which it was relatively higher than the growth rate of the other applications and of the product. 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 0.8% (for the year ending in the second quarter of 2018), and estimates that the interest rate would gradually rise as from 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. The trend of moderation in demand for residential units and a slowdown in activity continued in recent months. This included the continued moderation in housing price increases alongside a decline in the volume of new mortgage loans and a reduction in the number of transactions. Moreover, the rise in the mortgage interest rate has stopped and even a slight reduction therein is noticed. This moderation is explained by potential purchasers of a first apartment waiting for the implementation of the "price for the apartment purchaser" project, as well as steps taken by the Government to exclude investors from the market.

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 June 30, 2017, compared with 19.3% at the end of 2016.

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. In accordance with the Amendment, guarantees granted under the Sale Act, in respect of apartments sold in a project or building, in which the sale had commenced after the determining date, as defined in the amendment to the Act, 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 Amendment, entered into effect during May and the Bank is preparing for the implementation of the provisions of the Amendment applying to a banking corporation.

FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

NON-FINANCIAL COMPANIES

Legislative restrictions, regulations and special constraints applicable to the sub-segment

As of June 30, 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 June 30, 2017, the net investments of Discount Capital in these corporations and funds amounted to approx. US\$258 million. As of June 30, 2017, the maximum future commitment of Discount Capital for investment in these corporations and funds amounted to approx. US\$119 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 half of 2017, Discount Capital has recognized income in the total amount of NIS 136 million in respect of realizations of investments, mostly in respect of a realizations by Funds of the Fortissimo group (approx. NIS 106 million), by a fund of the FIMI group (approx. NIS 10 million) and by IGP Fund (approx. NIS 11 million), compared with approx. NIS 61 million in the corresponding period last year. In July 2017, FIMI Group funds consummated a transaction for the sale of their full interest in one of the companies held by them. Furthermore, at the beginning of August 2017, the sale was reported of the full interest of a Fortissimo Group fund in one of its portfolio companies. The pre-tax gains, which Discount Capital is expected to recognize in respect of the above mentioned transactions, are estimated at between NIS 45-50 million.

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 June 30, 2017, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 15.32% 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. Accordingly, certain restrictions apply to the volume of activity of the additional clearing agent, which are not detailed in the notice. The Supervisor of Banks states that once the additional clearing agent completes preparations and complies with all requirements, the limited license would be replaced by 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.

Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and the company.

The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Act, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses.

Approach by the MasterCard Worldwide Organization. On August 2, 2017, ICC was approached by the MasterCard Worldwide Organization, requesting ICC to implement different operational requirements within a time frame set by MasterCard, and which at present, are not being implemented in full in the Israeli market, including by ICC.

ICC estimates that implementation of most of the said requirements involves cross-sector preparations.

ICC is studying the requests of MasterCard, and intends to reach an understanding with MasterCard and in accordance therewith form a suitable plan complying with the requirements.

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.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. The Ministry of Finance informed ICC on July 24, 2017, that to the extent that the maximum trading house commission applying to domestic transactions, charged in relation to an exclusive issue and clearing brand, shall be reduced over the period from 2017 to 2020 by four significant installments, reaching until the end of December 2017 a level not exceeding 2.95%, until the end of December 2018 a level not exceeding 2.45%, until the end of December 2019 a level not exceeding 2.10%, and until the end of June 2020 a level not exceeding 1.99%, then, for the time being, the Minister of Finance does not see the need to use his authority under section 36 M (a) of the Banking Act (Licensing), 1981, or to support proposed Bills, the contents of which is identical with acting under the said authority, or which directly interfere with the brand commission above and beyond the reduction outline described above. In accordance with the said outline, the Board of Directors of ICC approved on July 19, 2017, the limitation on the clearing commission for the "Diners" brand.

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.

Banking Order (Customer Service) (Supervision of Service Provided by an Issuer to a Clearing Agent in Respect to the Cross-Clearing of Immediate Charge Transactions) (Provisional instruction), 2015. An Order was published on June 4, 2017, which extends until December 31, 2018, the effect of the provisional instruction that limits the cross-commission on immediate debit transactions made by use of an immediate debit card or a rechargeable card.

Draft rules for the hosting of clearing agents. On August 7, 2017, the Supervisor of Banks published draft rules applying to cases where a clearing agent wishes to make use of the infrastructure of another clearing agent. The draft was published as part of the implementation of the measures determined in the Increase in Competition and Reduction in Concentration in the Banking Industry in Israel Act.

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.

ICOUNT

On August 10, 2017, the Bank entered into a cooperation agreement with a fintech technology company which has developed a system for the management of accounts and cash flows for small and medium businesses, operating by means of an Internet website and mobile application under the "iCount" brand name.

According to the signed agreement, customers would be able to join the service, by which banking information regarding their accounts at Discount Bank would be accessible and integrated into the iCount system.

This is the first technological-business application in the banking sector in Israel, which implements an open banking concept into an interface with third party suppliers using an Application Programming Interface (API) platform of the most advanced in the world, and which enables a secured link based on a global standard. The introduction of the product is subject to technological adjustments.

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 second quarter of 2017:

The sending of cash or transfer to a contact through the application. The transfer of an amount of up to NIS 2,000 per day (in total) to beneficiaries included in the mobile device contact list, with no need for the account details of the beneficiary! The beneficiary will be sent a one-time code by SMS, with which he would be able to withdraw the money from a Discount ATM (if the amount is in multiples of NIS 50), or transfer it to his bank account by entering the details using the marketing website of Discount Bank.

Transfer to a contact using SIRI – the digital help of Apple. The transfer of funds to a contact by means of the application, using the SIRI service of Apple Company – first appearance in the banking industry in Israel. With a long press on the home button of supported iPhones, the SIRI service is activated and through a vocal dialogue it would be possible to transfer funds to a contact using the Discount application.

Expanding the world of deposits through the application. Additional information is provided regarding savings deposits, structured deposits and foreign currency deposits existing in the account.

"DIDI" – a digital representative. The Bank is presently completing the development in the application, which is expected to be available to customers at the beginning of September 2017. The new development will allow correspondence and conversation with a digital representative on the application by the name of DIDI. The conversation with DIDI is held in an open language. DIDI would be able to provide customers with information regarding their accounts, to execute banking transactions, to assist customers in getting oriented with the application and to bring up important insights helping wise financial conduct.

The new service is based on advanced artificial intelligence technology, which enables the decoding of text typed by the customer on the one hand, and the conduct of a conversation by a clever and attentive robot on the other hand.

This is unique and primary service provided in the Israeli banking industry.

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST HALF OF 2017

DEVELOPMENTS IN THE GLOBAL ECONOMY

General. The first half of 2017 was marked by the continuing expansion of global growth. At the same time, the inflationary environment recorded a decrease in the second quarter, and it remained lower than the targets of the central banks.

The U.S. economy grew in the first half of the year at a rate of 2.0% (in annualized terms), following expansion in private consumption and in investments. The Eurozone grew at a rate of 2.2%.

In the second quarter of 2017, most developed countries were characterized by positive inflationary environment. At the end of the quarter, annual inflation in the United States and in the Eurozone stood at 1.6% and 1.3%, respectively. Stabilization and even recovery in growth, alongside the decline in concerns regarding deflation, supported the gradual change in direction of the monetary policy. In the U.S., the interest rate rose by 0.5% to 1.25%-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 half of the years 2016 and 2017

Index	Change in the first half of	
	2017	2016
500 S&P	8.2%	2.7%
DAX	16.2%	(9.9%)
MSCI Emerging Markets	17.2%	5.4%

A low volatility was recorded on the equities markets, concurrently with a reduction in returns on government bonds in the U.S.. At the end of the first half, the returns on 10-year bonds fell to a level of 2.3% from a level of 2.44% at the beginning of the year.

The returns on government bonds

Return on bonds for 10 years	June 30, 2017	December 31, 2016
U.S.A.	2.30%	2.44%
Germany	0.47%	0.21%

In the second 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.. On the other hand, the economic recovery experienced in the Eurozone as well as the decline in the political risk in the Eurozone, supported the strengthening of the Euro.

Changes in the U.S. dollar against selected currencies

Exchange rate	Change in the first half of	
	2017	2016
EUR	8.6%	(1.9%)
JPY	(3.9%)	(16.5%)
GBP	5.6%	10.0%

Oil prices dropped in the second quarter, following concerns regarding the continuation of surplus supply.

Changes in selected commodities indexes

	Change in the first half of	
	2017	2016
The commodities index - GSCI	(6.5%)	20.0%
The oil price (BRENT)	(15.7%)	33.3%
The oil price (WTI)	(14.3%)	30.5%
Gold	8.2%	24.6%

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL⁴

The local economy grew in the first quarter at a slow rate of 1.4%, following 4.7% in the last quarter of 2016. An analysis of the growth components indicates that the slowdown stems, in the most, from the steep decline in the import of motor vehicles. Nevertheless, current private consumption continued to grow at a fair rate of 3.1%, though lower compared with the average in 2016. The investment in fixed assets component was also impacted by the steep decline in the import of passenger cars, alongside the continuing decline in investments in machinery and equipment, as seen on the background of the completion/nearing completion of the gigantic investment by "Intel" in its plant in Kiriyat-Gat. On the other hand, exports (excluding startup companies and diamonds) recorded rapid growth at the rate of 9.7% (similarly to that of the last quarter of the previous year).

Manpower surveys for the first half of the year indicate stability of the labor market, at a high level. This, despite the slight rise in the unemployment rate to 3.9%, compared to 3.8% in December 2016 (ages 25-64). During the first half of the year, approx. 14 thousand employees aged 25-64 were engaged, a low rate in relation to 2016 (approx. 66 thousand employees during 2016). A similar image appears with respect to the total workforce (ages 15 and above), the rate of unemployment remained at a level of 4.4%, with an increase in participation rate to 64.1% and a relatively slow absorption of workers.

⁴ The growth figures in Israel for the second quarter of 2017 were not available at the time the report was submitted to the printing press.

DEVELOPMENTS IN ECONOMIC SECTORS

Fluctuations were recorded in the first half of the year⁵ in industrial production data (industry), in view of the sharp slowdown in the activity of the hi-tech based industries at the beginning of the year alongside a significant improvement in the months of March and April. In total for the period, a decrease of 1.1%⁶ was recorded with respect to the hi-tech industries, which reduced the data relating to the other industries and led to a moderate increase of 0.4% in the industrial production index. Other sectors recorded a mixed trend with acceleration of 4% in the activity of industrial sectors employing semi-hi-tech technology alongside a standstill in the traditional industrial sectors.

DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY

During January-May 2017⁷, direct investments of foreign residents in Israel (through banks) amounted to US\$3.1 billion. Financial investments of foreign residents on the Tel Aviv Stock Exchange, amounted in the reviewed period to US\$1.5 billion, compared to US\$0.4 billion in the first half of 2016. Financial investments in marketable securities by Israeli residents abroad amounted in the months of January-May 2017, to US\$5.7 billion, of which, US\$3.1 billion in equities and the remaining amount in bonds.

The changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	January-May 2017	First half of 2016
	US\$ million	
Total direct investments through banks	3,147	5,894
Total financial investments	2,857	1,272
Of which: Government bonds and MAKAM	709	317
Shares	809	353

Investments abroad by Israeli residents	January-May 2017	The year 2016
	US\$ million	
Total direct investments	1,631	82
Total financial investments	5,726	373

DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

The rate of inflation remained negative during the first half of 2017, totaling a negative rate of 0.2% in the period of twelve months ended in June 2017. This compared to a negative inflationary rate of 0.8% in the period of twelve months ended in June 2016. Most of the rise in the inflationary rate was due 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 during the period, the shekel maintained its stature with an appreciation of 9.1% and 2.5% against the U.S. dollar and against the effective currency array, respectively.

FISCAL AND MONETARY POLICY

Fiscal policy. The cumulative deficit for the twelve months ended in June 2017, amounted to 2.5% of the GDP, compared to the annual target of 2.9%. However, with the elimination of the changes in the distribution of the expenditure of the Ministry of Defense compared with prior years, the cumulative deficit remained at the level of 2.3% of the domestic gross product, similarly to that of the previous month.

⁵ The most updated data available at the time of submitting the report to print – Data for May 2017.

⁶ The monthly average for the first half of 2017 as compared with the monthly average for 2016.

⁷ The most updated data available at the time of submitting the report to print

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. Furthermore, the Governor of the Bank of Israel emphasized that it is the intention of the Monetary Committee to leave the monetary policy unchanged to the extent required to establish the inflationary environment within the targeted range.

CAPITAL MARKET

The reviewed period was marked with a positive trend on the local capital market, primarily due to global developments. In total for the period, most of the central indices recorded price increases, except for the TA 35 Index, due to the continuing weakness in the pharmaceuticals sector.

The changes recorded in selected share indices during the first half of 2016 and 2017

Index	Change in the first half of	
	2017	2016
TA 35	(2.5%)	(8.6%)
TA 125	0.5%	(7.9%)
TA banks	8.3%	(2.0%)
TA Global-BlueTech	(4.3%)	(2.6%)
Real-estate 15	14.1%	12.8%

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 20 basis points and was traded at the end of the first half at a level of 2.08%. The decline in returns trend marked the whole shekel graph alongside the decline in inflationary expectations.

The changes recorded in selected bond indices during the first half of 2016 and 2017

Index	Change in the first half of	
	2017	2016
General bonds	1.7%	2.3%
General Government bonds	0.9%	2.1%
Shekel Government bonds	1.5%	1.8%
Linked Government bonds	0.2%	2.6%
General Corporate bonds	3.1%	2.6%
Linked Corporate bonds	2.9%	2.8%
Shekel Tel-Bond	3.4%	1.5%

In the first half of 2017, capital raised through the issuance of corporate bonds by Israeli companies totaled NIS 31.3 billion, compared with NIS 29.8 billion in the first half of 2016. Of the above sum, NIS 4.2 billion was issued by banks, compared with NIS 12.6 billion in the first half of 2016.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial assets portfolio held by the public grew in the months of January-June 2017, by 1.9%, amounting at the end of June to NIS 5.3 trillion. Most of the rise stemmed from an increase in the value of the foreign equities component alongside a decline in the foreign currency linked component.

The distribution of the asset portfolio held by the public

	June 30, 2017	December 31, 2016
Shares	22.4%	22.2%
Non-linked assets	36.8%	36.0%
CPI linked assets	28.9%	29.1%
Foreign currency linked assets	11.9%	12.6%

PRINCIPAL ECONOMIC DEVELOPMENTS IN JULY AND AUGUST 2017⁸

The monetary policy in the Eurozone remained expansionary during the month of July, and the Governor of the ECB positively noted the swift growth during the first half of the year, although he emphasized that the rate of inflation in the Eurozone is not yet sufficient in order to consider the reduction of the expansionary policy. In the United States, the labor market data for July indicate additional improvement, with 209 thousand new positions. Moreover, estimates have grown that the FED in its coming meeting, is expected to announce a plan for the reduction in the balance, however, a moderation took place in the interest rate outline grossed-up in the markets. These changes led to a reduction in returns in the Eurozone and in the U.S., alongside fluctuations and the appreciation of the Euro (and devaluation of the U.S. dollar) on the foreign currency markets.

In Israel, the budget execution data for July indicate a rise in the cumulative deficit for the past twelve months to a level of 2.6% of the product, compared to 2.5% in the previous month. A growth of 4.9% was recorded on the revenues side in the collection of taxes for the period from January to July 2017, as compared to the corresponding period last year.

A decrease in returns is noticed on the bond markets, in line with the global trend, and the exchange rate devalued by 3% and 6% against the U.S. dollar and the Euro, respectively. The equities market recorded a mixed trend with new high records in the U.S., alongside a decrease of 2% in the DAX Index and a decrease of 6% in the TA 35 Index.

LEGISLATION AND SUPERVISION

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

LEGISLATION FOR INCREASING COMPETITION IN BANKING AND FINANCIAL SERVICES

Strengthening Competition and Reducing Concentration and Conflicts of Interest in the Israeli Banking Industry, (legislation amendments) act, 2017 (hereinafter: "the Strum Act"). For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published draft amendments of Proper Conduct of Banking Business Directives:

- Draft amendment of Proper Conduct of Banking Business Directive No. 470 regarding debit cards – inter alia with respect to the application of the provision of the Strum Act requiring the presentation of information regarding transactions made by use of a debit card, in an identical manner to those made by a bank and off-banking credit cards.
- Draft amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking – with respect to the application of the provision of the Strum Act dealing with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer.

⁸ All data relate to the period from July 1, 2017 and until August 9, 2017.

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. The Bank and ICC presented to the Committee their comments on the draft findings, as stated. A hearing regarding the published draft findings was held on July 9, 2017 in which the Bank and ICC appeared. For additional details, see the 2016 Annual Report (p. 399, item 1.12).

Automatic Banking Services (ABS) – Reduction in holdings. In accordance with the Increase in Competition and Reduction in Centralization in the Banking Industry in Israel Act (Legislation amendments), 2017, which took effect on January 31, 2017, 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 Regulation of Off-banking Loans Act (Amendment No. 5) ("The Fair Credit Act"). The Act was published on the Official Gazette on August 9, 2017. The Act states that in the period starting with the end of two years from the date of the Act and ending with the end of the third year from that date, the Bank of Israel would examine the average rate of the actual cost of the credit granted by banking corporations to borrowers. If the Bank of Israel finds that the maximum cost of credit, as determined by the Act, led to an unjustified increase in the average cost, as stated, than the Bank of Israel would recommend to the Minister of Finance whether to decrease the maximum cost rate of credit. After receiving the Bank of Israel's recommendation as stated, the Minister of Finance shall examine as to whether he should use his authority under the Act and reduce the maximum rate of cost of credit. The Act takes effect at the end of fifteen months from date of publication thereof. For additional details see the 2016 Annual Report (p. 400).

The Supervision over Financial Services Act (Regulated financial services) (Amendment No. 4) (Operation of a credit brokerage system), 2017. The Act was published on the Official Gazette on August 6, 2017. The Act included an additional provision – "infant entrant protection" – whereby, during a period of three years from date of the Act taking effect, a banking corporation and an auxiliary corporation shall not engage in the operation of a system for credit brokerage, shall not control or hold an operator of such a system, and if the operator of the system is an individual – shall not have an influence over him. Notwithstanding the above, credit card companies being in the process of separation from banks and new banks would be permitted to hold, in the said period, up to a 20% of a certain class of means of control in the operator (in a fashion that does not create control of the said entity). The principal part of the Act takes effect on February 1, 2018. For additional details, see the 2016 Annual Report (p.400).

Draft of the Supervisor of Banks in the matter of the policy of banking corporations regarding their operations with customers operating a credit brokerage system. The draft states rules for the opening and management of trust accounts being part of the operations of credit brokerage systems. The draft states, inter alia, that until the Supervision over Financial Services Act (Regulated financial services) (Amendment No.4) (Operation of a credit brokerage system), 2017, takes effect, and until the Prohibition of Money Laundering Order is applied to the operation of credit brokerage systems, each of the five major banks is required to form a detailed policy as to the management of accounts of credit brokerage systems, which should reflect a risk based approach. Upon the said Act taking effect, including the application of a prohibition of money laundering regimen, the Supervisor of Banks would act for the granting of relief regarding the management of accounts of credit brokerage systems.

ANTITRUST

Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS.

The exemption from approval of a restrictive agreement between ABS and the banks expired on May 28, 2017. In consequence thereof, the Antitrust Authority issued a "no action" letter, valid until July 27, 2017, or until a decision is given in the request for exemption, whichever is earlier (see the 2016 Annual Report, p.402).

Draft Antitrust Rules (Class exemption for syndication loan arrangements), 2017. On May 28, 2017, the Antitrust Authority published for public comment draft rules regarding class exemption for syndication loans.

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the "Board of Directors". The Supervisor of Banks published on July 5, 2017, an amendment to the Directive. Within the framework of the amendment the maximum number of directors of a banking corporation was reduced to ten, and additional instructions were included regarding the qualification of the Board and its composition, within the framework of which the number of directors required to have banking experience was increased from one fifth to one third, and it is required that at least one director must have proven experience in the field of information technology. Moreover, the instructions permit the Board of Directors to delegate additional authority to committees of the Board in order to improve the work of the Board and enable it to focus on material matters. In addition, a new requirement is included regarding the adoption of a policy in respect of the maximum length of period of office of the Chairman of the Board. The Amendment takes effect on date of publication thereof, excluding the instructions regarding the reduction in the number of Directors and qualification of its members, which will take effect on July 1, 2020.

LEGISLATION AND REGULATION AMENDMENTS RELATING TO THE CAPITAL MARKET

Securities Act (Amendment No. 60) (Change in structure of the Stock Exchange), 2016. The Act was published on the Official Gazette on April 6, 2017. On June 29, 2017, the Stock Exchange filed a motion with the Court requesting the convening of meetings for the approval of the arrangement. In the hearing held on July 18, 2017, the Court consented to the request of the Stock Exchange. In view of the objection of Bank Leumi to the request, the Stock Exchange suggested two alternatives for the amendment of the bylaws of the clearing houses regarding the risk fund. A meeting of the Stock Exchange members for the purpose of approving the arrangement has been fixed for August 10, 2017.

Pension consulting. Within the framework of the actions taken by the Capital Market Authority for the regulation of uniform interfaces used for the transmission of information and data regarding pension savings, the Authority published on March 1, 2017, an amendment to the circular regarding a uniform structure. The amendment states, inter alia, that as from November 1, 2017, use of the event interface (hereinafter: "the interface") would gradually become obligatory. The interface states the details of the information, which license holders have to provide to institutional bodies with a view of enabling the digital intake of pension products, as well as the making of changes to existing products. The Bank is preparing for the development of the interface, and concurrently is discussing directly with the Capital Market authority, as well as through the Union of Banks, the possibility of obtaining an extension as regards the duty to apply the use of the said interface.

The Mutual Investment Trust Act (Amendment No. 28), 2017. The Act was published on the Official Gazette on August 3, 2017. The object of the Amendment is to establish a legislative basis for a new class of a mutual fund – "ETF", with a view of turning existing ETN's into mutual funds, and the regulation of the ETN field under the Mutual Investment Trust Act. The effective date is upon the entry into effect of the Mutual Investment Trust Regulations (Tracking funds), which to date have not yet been published, or October 1, 2017, whichever is later.

U.S. LEGISLATION

In May 2017, the U.S. House of Representatives approved the provisions of the Financial Choice Act of 2017, intended to reorganize the regulation framework enacted following the financial crisis of 2008, by granting significant regulatory relief to banking institutions complying with certain terms, as stated in the instruction. The Bill includes several suggestions for the amendment, cancellation and replacement of parts of the Dodd Frank Reform. However, difficulties are expected in the process of approval of the Act by the U.S. Senate, and it seems that the Act would undergo significant changes prior to its final approval, if at all. For details regarding the Dodd Frank Reform, see the 2016 Annual Report (pp. 405-406).

LEGISLATION AND STANDARDS IN THE MATTER OF DEBT COLLECTION

The Debt execution Bill Memorandum (a debtor who makes ordered payments and the opening of a claim regarding a liquidated amount), 2017. The Memorandum has been prepared as replacement for a private Bill proposing the total exemption of a debtor from the payment of interest in arrears. In accordance with the memorandum, a debtor who makes regular payments for the repayment of a debt, as determined by the Debt Execution Registrar, would be entitled to a reduction in the interest in arrears added to his debt. The reduction will be at the rate of 25% of the amount of the interest in arrears in the case. In addition, collection proceedings such as salary foreclosure, foreclosure of goods and limits on deriving license, would be discontinued. The aim of the Memorandum is to provide debtors with an incentive to pay their debt, knowing full well that thereby they reduce the interest that is being added to the debt. In addition, it is proposed to determine in the Debt Execution Act that upon filing a claim directly with the Debt Execution Office in a liquidated amount of up to NIS 75 thousand, the Defendant would have the option of repaying the debt within the specified warning period, thereby being exempted from the payment of the reimbursed fee and legal fees.

The Banking Bill (Customer service) (Amendment – Deferral of the repayment date of a housing loan of an unemployed customer), 2016. This is a private Bill proposing the deferral for a period of up to three months, of the repayment of a housing loan, requested by a borrower who is unemployed. If the borrower has requested the deferral of a number of repayments, then he would be limited to a total amount of deferrals not exceeding one year. The borrower would also be entitled to request a deferral of only a part of the monthly repayment amount. During the period of deferral only the contractual interest would be charged, with no interest on arrears. The proposed Bill was approved on June 25, 2017 by the Ministerial Committee on Legislation Matters and was passed for preparation for a first reading.

VARIOUS LEGISLATION MATTERS

Payment Services Bill Memorandum, 2017. This Bill Memorandum is the first of two Bill Memorandums being distributed following the work of the inter-ministerial committee and the sub-committee established under it, intended to regulate the field of advanced means of payment. This Bill Memorandum deals with the material instructions and consumer protection, and it proposes to replace the Debit Card Act with a more comprehensive and updated Act, matching the technological developments in this field. The Memorandum includes also complete regulation in the matter of authorization for the charging of an account or means of payment based, inter alia, on Proper Conduct of Banking Business Directive No.439. The Memorandum is also based on the European regulations in accordance with the PSD principles. The Bill proposes to regulate two main contractual systems: (1) between the provider of payment services to a payer (issuer of means of payment or manager of a payment account) and the payer; (2) between the provider of payment services to a beneficiary (a clearing agent or manager of a payment account) and the beneficiary (the recipient of the payment). The Memorandum also proposes to establish general instructions regarding the execution of payment orders and regulate the responsibility attached thereto. The payment services to which the Bill applies are the management of a payment account, issue of means of payment, clearing of payment transaction and any additional service determined by the Minister of Justice, with the consent of the Minister of Finance and the Governor of the Bank of Israel.

Customer Protection Bill (Amendment – Termination or Changes in Consumer Benefits Program), 2015. The said proposed Bill was tabled before the Knesset on June 8, 2015. The aim of the Bill is to establish instructions regarding the termination or changes made to consumer benefits programs, and which is intended to apply also to credit card companies. The Bill passed its first reading on February 21, 2017, and was submitted to the Economics Committee of the Knesset for preparation for second and third readings. The Economics Committee approved the Bill on July 4, 2017, passing it for approval of the plenum of the Knesset.

For further details regarding "Legislation and Supervision", see the 2016 Annual Report (pp. 396-412).

LEGAL PROCEEDINGS

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 hearing of evidence in the personal action of the Claimant was held on June 29, 2017. At the end of the hearing, the Court determined that the Claimant has to submit its summing-up brief by October 15, 2017, and the Bank has to submit its summing-up brief by December 15, 2017. Furthermore, at the same time, with respect to the appeal filed by the Claimant with the National Labor Court against the decision of the Regional Court not to approve his action as a class action. The Appellant submitted its summing-up brief on June 5, 2017, and the Bank has to submit its summing-up brief by November 15, 2017. The hearing of the appeal is fixed for December 25, 2017. For additional details, see the 2016 Annual Report (pp. 412-413).

Approach in accordance with Section 198A of the Companies Act. As detailed in the 2016 Annual Report (p. 413), on December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 17 item 3 to the condensed financial statements).

On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB. On June 18, 2017, the Court admitted the request of the parties, postponing the hearing of the case for a period of six months. On August 9, 2017, the Attorney General for the Government announced his taking part in the proceedings and even attached his position as submitted in a parallel case conducted against another bank, in which the disclosure of documents had been requested. It is evident from the said position of the Attorney General that documents and details created within the framework of relations with the Bank of Israel should not be exposed and disclosed (including correspondence with the Bank of Israel and reports of the Bank of Israel). This position is principally based on the confidentiality provisions (of the Banking Ordinance) and on public interest. As regards the remaining documents, the Attorney General does not see fit at this stage to take a position.

MATERIAL LEGAL PROCEEDINGS SETTLED IN THE SECOND QUARTER OF 2017

For details regarding legal proceedings terminated on May 14, 2017, following approval of the withdrawal of the Claimants, see Note 10, item 4.2, to the condensed financial statements.

PROCEEDINGS REGARDING AUTHORITIES

1. 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.
2. Request for information regarding agreements relating to discounting – On June 18, 2017, ICC received an approach from the Antitrust Authority, in the framework of which ICC was requested to deliver information regarding certain items included in agreements signed with the different discounting companies. ICC has complied with the request.

For additional details, see the 2016 Annual Report (p. 414).

APPENDICES TO THE QUARTERLY REPORT

227	Appendices – List of tables
228	Appendix no. 1 – Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses
236	Appendix no. 2 – Additional details – securities portfolio
238	Appendix no. 3 – Additional details
241	Appendix no. 4 – Glossary
243	Appendix no. 5 – Index

Appendices - List of tables	Page no.
Appendix no. 1 - Rates of interest Income and Expenses on a consolidated basis and analysis of the changes in interest Income and expenses	228
Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors	236
(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio	236
(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio	236
(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe	237
Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors	237
Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors	238
(1) Details according to rating of balance-sheet balances of assets derived from transactions in derivative instruments where the counterparty is a bank	238
(2) Details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank	239
(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	240
Details divided by governments with respect to the total securities portfolio	240

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES

PART "A" - AVERAGE BALANCES AND INTEREST RATES – ASSETS

	For the three months ended June 30					
	2017			2016		
	Average balance ⁽²⁾	Interest income	Rate of income	Average balance ⁽²⁾	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public: ⁽³⁾						
In Israel	116,208	1,298	4.54	104,278	1,121	4.37
Outside Israel	20,765	203	3.97	20,478	188	3.72
Total credit to the public	136,973	*1,501	4.46	124,756	*1,309	4.26
Credit to the Government:						
In Israel	846	7	3.35	513	5	3.96
Outside Israel	4	-	-	14	-	-
Total credit to the Government	850	7	3.34	527	5	3.85
Deposits with banks:						
In Israel	2,890	7	0.97	3,200	2	0.25
Outside Israel	380	-	-	588	3	2.06
Total deposits with banks	3,270	7	0.86	3,788	5	0.53
Deposits with central banks:						
In Israel	18,924	5	0.11	18,595	5	0.11
Outside Israel	1,270	2	0.63	1,320	1	0.30
Total deposits with central banks	20,194	7	0.14	19,915	6	0.12
Securities borrowed or purchased under resale agreements:						
In Israel	453	-	-	286	-	-
Total securities borrowed or purchased under resale agreements	453	-	-	286	-	-
Bonds held for redemption and available for sale: ⁽⁴⁾						
In Israel	24,011	108	1.81	22,760	92	1.63
Outside Israel	9,810	56	2.30	10,907	65	2.41
Total bonds held for redemption and available for sale	33,821	164	1.95	33,667	157	1.88
Trading bonds: ⁽⁴⁾						
In Israel	2,346	9	1.54	3,488	6	0.69
Outside Israel	57	1	7.20	56	1	7.34
Total trading bonds	2,403	10	1.68	3,544	7	0.79
Other assets:						
Outside Israel	670	4	2.41	693	5	2.92
Total other assets	670	4	2.41	693	5	2.92
Total interest bearing assets	198,634	1,700	3.47	187,176	1,494	3.23
Debtors in respect of credit card operations	6,537			6,045		
Other non-interest bearing assets ⁽⁵⁾	15,091			14,847		
Total assets	220,262			208,068		
Of which: Total interest bearing assets attributable to operations outside Israel	32,956	266	3.27	34,056	263	3.12
* Commissions included in interest income from credit to the public		79			78	

For footnotes see page 231.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "B" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

	For the three months ended June 30					
	2017			2016		
	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %	Average balance ⁽²⁾ In NIS millions	Interest expenses	Rate of expense In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	31,411	1	0.01	29,274	1	0.01
In Israel - Time deposits	84,152	159	0.76	75,961	119	0.63
Total deposits from the public in Israel	115,563	160	0.55	105,235	120	0.46
Outside Israel - On call	12,497	17	0.55	12,908	15	0.47
Outside Israel - Time deposits	7,402	22	1.19	⁽⁹⁾ 7,923	⁽⁹⁾ 20	1.01
Total deposits from the public outside Israel	19,899	39	0.79	20,831	35	0.67
Total deposits from the public	135,462	199	0.59	126,066	155	0.49
Deposits from the Government:						
In Israel	217	-	-	238	1	1.69
Outside Israel	80	1	5.09	⁽⁹⁾ 42	⁽⁹⁾ -	-
Total deposits from the Government	297	1	1.35	280	1	1.44
Deposits from banks:						
In Israel	3,474	2	0.23	2,911	2	0.28
Outside Israel	1,308	6	1.85	1,124	4	1.43
Total deposits from banks	4,782	8	0.67	4,035	6	0.60
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,323	33	4.03	3,631	36	4.03
Total securities loaned or sold under repurchase agreements	3,323	33	4.03	3,631	36	4.03
Bonds and subordinated debt notes:						
In Israel	8,659	153	7.26	8,727	139	6.52
Total bonds and subordinated debt notes	8,659	153	7.26	8,727	139	6.52
Other liabilities:						
In Israel	70	2	11.93	88	2	9.41
Total other liabilities	70	2	11.93	88	2	9.41
Total interest bearing liabilities	152,593	396	1.04	142,827	339	0.95
Non-interest bearing deposits from the public	37,466			36,692		
Creditors in respect of credit card operations	7,091			6,502		
Other non-interest bearing liabilities ⁽⁶⁾	7,907			8,661		
Total liabilities	205,057			194,682		
Total capital resources	15,205			13,386		
Total liabilities and capital resources	220,262			208,068		
Interest margin		1,304	2.43		1,155	2.28
Net return on interest bearing assets:⁽⁷⁾						
In Israel	165,678	1,117	2.72	153,120	967	2.55
Outside Israel	32,956	187	2.29	34,056	188	2.23
Total net return on interest bearing assets	198,634	1,304	2.65	187,176	1,155	2.49
Of which: Total interest bearing liabilities attributable to operations outside Israel	24,610	79	1.29	25,628	75	1.18

For footnotes see page 231.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "C" - AVERAGE BALANCES AND INTEREST RATES - ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

For the three months ended June 30						
2017			2016			
	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	131,675	1,032	3.17	118,096	905	3.10
Total interest bearing liabilities	(100,058)	(84)	(0.34)	(88,791)	(65)	(0.29)
Interest margin		948	2.83		840	2.81
CPI-linked shekels:						
Total interest bearing assets	19,641	299	6.23	19,281	227	4.79
Total interest bearing liabilities	(11,194)	(200)	(7.34)	(12,562)	(174)	(5.66)
Interest margin		99	(1.11)		53	(0.87)
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	14,362	103	2.90	15,743	99	2.54
Total interest bearing liabilities	(16,731)	(33)	(0.79)	(15,846)	(25)	(0.63)
Interest margin		70	2.11		74	1.91
Total operations in Israel:						
Total interest bearing assets	165,678	1,434	3.51	153,120	1,231	3.25
Total interest bearing liabilities	(127,983)	(317)	(0.99)	(117,199)	(264)	(0.90)
Interest margin		1,117	2.52		967	2.35

For footnotes see next page.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "D" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

	For the three months ended June 30		
	2017 Compared to 2016		
	Increase (decrease) due to change ⁽⁸⁾		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	133	44	177
Outside Israel	3	12	15
Total credit to the public	136	56	192
Other interest bearing assets:			
In Israel	2	24	26
Outside Israel	(7)	(5)	(12)
Total other interest bearing assets	(5)	19	14
Total interest income	131	75	206
Interest bearing liabilities:			
Deposits from the public			
In Israel	14	26	40
Outside Israel	(2)	6	4
Total deposits from the public	12	32	44
Other interest bearing liabilities:			
In Israel	6	7	13
Outside Israel	(1)	1	-
Total other interest bearing liabilities	5	8	13
Total interest expenses	17	40	57
Interest income, net	114	35	149

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 (1) million and NIS 101 million, respectively; 2016 – NIS 6 million and NIS 319 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 (2).

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "E" – AVERAGE BALANCES AND INTEREST RATES – ASSETS

	For the six months ended June 30					
	2017			2016		
	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %	Average balance ⁽²⁾ In NIS millions	Interest income	Rate of income In %
Interest bearing assets:						
Credit to the public: ⁽³⁾						
In Israel	114,199	2,384	4.22	103,138	2,021	3.96
Outside Israel	20,981	399	3.84	20,931	380	3.66
Total credit to the public	135,180	*2,783	4.16	124,069	*2,401	3.91
Credit to the Government:						
In Israel	802	12	3.01	509	8	3.17
Outside Israel	4	-	-	14	-	-
Total credit to the Government	806	12	3.00	523	8	3.08
Deposits with banks:						
In Israel	2,995	12	0.80	3,178	5	0.31
Outside Israel	498	2	0.80	699	4	1.15
Total deposits with banks	3,493	14	0.80	3,877	9	0.46
Deposits with central banks:						
In Israel	19,228	9	0.09	18,357	9	0.10
Outside Israel	1,262	5	0.79	1,549	3	0.39
Total deposits with central banks	20,490	14	0.14	19,906	12	0.12
Securities borrowed or purchased under resale agreements:						
In Israel	495	-	-	268	-	-
Total securities borrowed or purchased under resale agreements	495	-	-	268	-	-
Bonds held for redemption and available for sale: ⁽⁴⁾						
In Israel	24,518	176	1.44	22,851	136	1.19
Outside Israel	10,184	115	2.27	11,076	131	2.38
Total bonds held for redemption and available for sale	34,702	291	1.68	33,927	267	1.58
Trading bonds: ⁽⁴⁾						
In Israel	2,581	14	1.09	3,313	4	0.24
Outside Israel	58	1	3.48	340	1	0.59
Total trading bonds	2,639	15	1.14	3,653	5	0.27
Other assets:						
In Israel	-	-	-	-	(9)	-
Outside Israel	684	11	3.24	702	10	2.87
Total other assets	684	11	3.24	702	10	2.87
Total interest bearing assets	198,489	3,140	3.19	186,925	2,712	2.92
Debtors in respect of credit card operations	6,390			6,035		
Other non-interest bearing assets ⁽⁵⁾	15,204			15,141		
Total assets	220,083			208,101		
Of which: Total interest bearing assets attributable to operations outside Israel	33,671	533	3.19	35,311	529	3.02
* Commissions included in interest income from credit to the public		156			159	

For footnotes see page 235.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "F" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

	For the six months ended June 30					
	2017			2016		
	Average balance ⁽²⁾	Interest expenses	Rate of expense	Average balance ⁽²⁾	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	31,012	2	0.01	28,739	2	0.01
In Israel - Time deposits	83,345	254	0.61	75,236	151	0.40
Total deposits from the public in Israel	114,357	256	0.45	103,975	153	0.29
Outside Israel - On call	12,850	35	0.55	13,241	32	0.48
Outside Israel - Time deposits	7,685	43	1.12	⁽¹⁰⁾ 8,081	⁽¹⁰⁾ 40	0.99
Total deposits from the public outside Israel	20,535	78	0.76	21,322	72	0.68
Total deposits from the public	134,892	334	0.50	125,297	225	0.36
Deposits from the Government:						
In Israel	220	1	0.91	241	1	0.83
Outside Israel	82	1	2.45	⁽¹⁰⁾ 29	⁽¹⁰⁾ -	-
Total deposits from the Government	302	2	1.33	270	1	0.74
Deposits from banks:						
In Israel	3,452	6	0.35	3,009	5	0.33
Outside Israel	1,367	10	1.47	1,028	8	1.56
Total deposits from banks	4,819	16	0.67	4,037	13	0.65
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,397	67	3.98	3,741	74	4.00
Total securities loaned or sold under repurchase agreements	3,397	67	3.98	3,741	74	4.00
Bonds and subordinated debt notes:						
In Israel	8,926	247	5.61	9,134	192	4.25
Total bonds and subordinated debt notes	8,926	247	5.61	9,134	192	4.25
Other liabilities:						
In Israel	72	3	8.51	85	3	7.18
Total other liabilities	72	3	8.51	85	3	7.18
Total interest bearing liabilities	152,408	669	0.88	142,564	508	0.71
Non-interest bearing deposits from the public	37,749			37,016		
Creditors in respect of credit card operations	6,930			6,509		
Other non-interest bearing liabilities ⁽⁶⁾	7,933			8,587		
Total liabilities	205,020			194,676		
Total capital resources	15,063			13,425		
Total liabilities and capital resources	220,083			208,101		
Interest margin		2,471	2.31		2,204	2.21
Net return on interest bearing assets:⁽⁷⁾						
In Israel	164,818	2,094	2.56	151,614	1,829	2.43
Outside Israel	33,671	377	2.25	35,311	375	2.14
Total net return on interest bearing assets	198,489	2,471	2.51	186,925	2,204	2.37
Of which: Total interest bearing liabilities attributable to operations outside Israel	25,381	156	1.23	26,120	154	1.18

For footnotes see page 235.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "G" – AVERAGE BALANCES AND INTEREST RATES – ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

For the six months ended June 30						
	2017			2016		
	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)	Average balance ⁽²⁾	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:						
Total interest bearing assets	129,781	2,005	3.11	116,249	1,781	3.09
Total interest bearing liabilities	(98,382)	(166)	(0.34)	(87,229)	(133)	(0.31)
Interest margin		1,839	2.77		1,648	2.78
CPI-linked shekels:						
Total interest bearing assets	19,724	391	4.00	19,326	⁽⁹⁾ 204	2.12
Total interest bearing liabilities	(11,480)	(282)	(4.97)	(13,097)	(173)	(2.66)
Interest margin		109	(0.97)		31	(0.54)
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	15,313	211	2.77	16,039	198	2.48
Total interest bearing liabilities	(17,165)	(65)	(0.76)	(16,118)	(48)	(0.60)
Interest margin		146	2.01		150	1.88
Total operations in Israel:						
Total interest bearing assets	164,818	2,607	3.19	151,614	2,183	2.90
Total interest bearing liabilities	(127,027)	(513)	(0.81)	(116,444)	(354)	(0.61)
Interest margin		2,094	2.38		1,829	2.29

For footnotes see next page.

APPENDIX NO. 1 – RATES OF INTEREST INCOME AND EXPENSES ON A CONSOLIDATED BASIS AND ANALYSIS OF THE CHANGES IN INTEREST INCOME AND EXPENSES (CONTINUED)

PART "H" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

For the six months ended June 30			
2017 Compared to 2016			
Increase (decrease) due to change ⁽⁸⁾			
	Quantity	Price	Net change
In NIS millions			
Interest bearing assets:			
Credit to the public:			
In Israel	231	132	363
Outside Israel	1	18	19
Total credit to the public	232	150	382
Other interest bearing assets:			
In Israel	9	52	61
Outside Israel	(18)	3	(15)
Total other interest bearing assets	(9)	55	46
Total interest income	223	205	428
Interest bearing liabilities:			
Deposits from the public:			
In Israel	23	80	103
Outside Israel	(3)	9	6
Total deposits from the public	20	89	109
Other interest bearing liabilities:			
In Israel	4	52	56
Outside Israel	1	(5)	(4)
Total other interest bearing liabilities	5	47	52
Total interest expenses	25	136	161
Interest income, net	198	69	267

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 (2) million and NIS 77 million, respectively; 2016 – NIS 4 million and NIS 269 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) Reclassified, see Note 1 G (2).

APPENDIX NO. 2 – ADDITIONAL DETAILS – SECURITIES PORTFOLIO

1. AVAILABLE FOR SALE BONDS – DATA ACCORDING TO ECONOMIC SECTORS

Details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors

		June 30, 2017		
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Non government bonds				
Various sectors	1,326	1,348	24	2
Financial services ⁽¹⁾	7,534	7,501	26	59
Total non government bonds	8,860	8,849	50	61
Government bonds				
U.S. government	428	429	2	1
Israel Government	16,560	16,685	135	10
Other Governments	286	286	-	-
Total government bonds	17,274	17,400	137	11
Total bond in the available-for-sale portfolio	26,134	26,249	187	72

(1) Details regarding bonds in the financial services sector in the available-for-sale portfolio

		June 30, 2017		
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Banks and banking holding companies ⁽²⁾	686	696	12	2
Insurance and provident funds	55	56	1	-
Ginnie Mae	5,491	5,452	7	46
Freddie Mac	414	411	1	4
Fannie Mae	748	744	3	7
Other	140	142	2	-
Total financial services	7,534	7,501	26	59

(2) Details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio

June 30, 2017				
	Amortized cost	Fair value	Accumulated other comprehensive income	
			Gains	Losses
In NIS millions				
Western Europe ⁽³⁾	518	524	8	2
Australia	168	172	4	-
Total banks and banking holding companies	686	696	12	2

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	200	199	1	2
Switzerland	88	88	-	-
Sweden	37	38	1	-
France	117	121	4	-
Netherlands	45	46	1	-
Germany	31	32	1	-
Total	518	524	8	2

2. HELD-TO-MATURITY SECURITIES – DATA ACCORDING TO ECONOMIC SECTORS**Details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors**

June 30, 2017				
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
Non government bonds				
Public and community services	⁽¹⁾ 1,305	1,354	49	-
Financial services*	696	694	7	9
Total non-government bonds	2,001	2,048	56	9
Total Government bonds	3,673	3,891	218	-
Total bonds in the held-to-maturity portfolio	5,674	5,939	274	9
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	193	193	3	3
Freddie Mac	308	305	1	4
Fannie Mae	108	106	-	2
Other	87	90	3	-
Total financial services	696	694	7	9

Footnote:

(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 NIS169-113 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.

APPENDIX NO. 2 – ADDITIONAL DETAILS – SECURITIES PORTFOLIO (CONTINUED)

3. TRADING BONDS – DATA ACCORDING TO ECONOMIC SECTORS

Details regarding the distribution of bonds in the trading securities portfolio according to economic sectors

	June 30, 2017			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
In NIS millions				
Non government bonds				
Various sectors	62	63	1	-
Financial services	74	73	-	1
Total non government bonds	136	136	1	1
Total government bonds	1,841	1,844	4	1
Total bonds in the trading portfolio	1,977	1,980	5	2

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 balance-sheet balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of June 30 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	17	2
With an AA+ rating	-	3
With an AA rating	229	260
With an AA- rating	8	158
With an A+ rating	829	782
With an A rating	159	139
With an A- rating	142	231
With a BBB- rating	8	14
Not rated	23	29
Total against foreign banks	1,415	1,618
Total against Israeli banks	352	546
Total Balance-sheet balances of assets deriving from derivative instruments	1,767	2,164

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 June 30 2017	As of December 31 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
With an AA rating	7	11
With an AA- rating	1	17
With an A+ rating	65	20
With an A rating	2	1
With an A- rating	1	3
Total against foreign banks	76	55
Total against Israeli banks	5	187
Total Off Balance-sheet balances of assets deriving from derivative instruments	81	242

APPENDIX NO. 3 – ADDITIONAL DETAILS (CONTINUED)

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Details of the column "Other" in Note 11 to the condensed financial statements according to the overall credit to the public risk per economic sectors

	As of June 30, 2017	As of June 30, 2016	As of December 31, 2016
	in NIS million		
Agriculture	1	-	-
Industry:			
Machines, electrical and electronic equipment	26	41	51
Mining, chemical industry and oil products	73	45	51
Other	26	33	19
Total industry	125	119	121
Construction and real estate:			
Acquisition of real estate for construction	13	15	20
Real estate holdings	53	125	52
Other	24	6	21
Total Construction and real estate	90	146	93
Electricity and water	387	117	231
Commerce	85	142	99
Hotels, hotel services and food	10	6	2
Transpiration and storage	66	160	25
Communications and computer services	34	70	27
Financial services:			
Financial institution (excluding banks)	555	428	584
Private customers active on the capital market	295	635	271
Financial holding institutions	136	79	54
Insurance and provident fund services	-	-	-
Total financial services	986	1,142	909
Business and other services	21	5	9
Public and community services	9	18	7
Private individuals - housing loans	-	-	-
Private individuals - other	19	9	6
Total	1,833	1,934	1,529
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received	(270)	(523)	(341)
Total credit risk in respect of derivative instruments	1,563	1,411	1,188

2. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 5 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Details divided by governments with respect to the total securities portfolio

	June 30, 2017		December 31, 2016	
	Book value	Fair value ⁽¹⁾	Book value	Fair value ⁽¹⁾
	In NIS millions			
Of the Israeli Government	22,098	22,316	22,835	23,086
U.S. government	533	533	664	664
Other governments	286	286	390	390
Total	22,917	23,135	23,889	24,140

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"> Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
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"> A basis and nominal value that determine the settlement amount of the instrument. 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). Its terms require or permit net settlement.
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"> 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. 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.
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

Page	Term	Page	Term
214–215	The digital department	74, 136–144	Derivative instruments
73–74	Critical accounting estimates	27–29, 100–115	Securities
72–73	Palestinian Banks	43–73	Risk management
200	Raising of capital	29–30	Customer Assets
215	Digital representative – Didi	43–64	Credit risk
23–27, 43–64, 162–183	Credit to the public	58–60	Credit risk in housing loans
30–33, 128–132	Capital and capital adequacy	60–63	Credit risk for private individuals (excluding credit risk in housing loans)
74, 122–127	Employee benefits	70–72	Liquidity and financing risks
19–21, 95	Interest income	72–73	Compliance risk
133–135, 223	Legal proceedings	65–70	Market risk
21–22, 162–183	Allowance for credit loss expenses	72	Operational risk
39–42	Main investee companies	215	Direct Channels
33	Dividend distribution	29–30, 121	Deposits from the public
131	Leverage ratio	199, 213–214	Credit card activity
70, 132	Liquidity coverage ratio	74, 187–198	Fair value
12–13	Goals and business strategy	214	iCount
14, 200	Issue of subordinated debt notes (Series L)	214	Pay Box
33–39, 145–161, 208–212	Segments of operation		
73–74, 92–94	Accounting policy		
56–57	Foreign financial institutions		
64	Leveraged finance		

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

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

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 511 Fifth Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative
office in Long Island