ANNUAL REPORT 2016

ISRAEL DISCOUNT BANK

THE BOARD OF DIRECTORS AND MANAGEMENT REPORT

INTERNAL CONTROL OVER FINANCIAL REPORTING

FINANCIAL STATEMENTS

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

APPENDICES TO THE ANNUAL REPORT

Board Of Directors

DR. YOSSI BACHAR
Chairman of the Board
(Outside Director)

ARIE ORLEV

ASHER ELHAYANY

ILAN BIRAN
(Outside Director)

LINDA BENSHOSHAN

ELI ELIEZER GONEN

YODFAT HAREL-BUCHRIS

MIRIAM (MIRI) KATZ

BARUCH LEDERMAN
(Outside Director)

YEHUDA LEVI
(Outside Director)

DAVID LEVINSON

EDITH LUSKY
(Outside Director)

SHAUL KOBRINSKY

YALI SHEFFI

Details regarding members of the Board of Directors and Managment are brought in the Report of tne Board of Directors & Managment

Management

LILACH ASHER-TOPILSKY
President & Chief Executive Officer

JOSEPH BERESSI
Senior Executive Vice President
Chief Accountant and Head of Accounting Division

YUVAL GAVISH
Senior Executive Vice President
Head of Banking Division

ESTHER DEUTSCH
Senior Executive Vice President
Chief Legal Adviser and Head of Legal Advisory Division

URI LEVIN
Senior Executive Vice President
Head of Planing, strategy and Finance Division

RAN OZ
Senior Executive Vice President
Head of Financial Markets Division

YAIR AVIDAN
Senior Executive Vice President
Head of Subsidiaries Division

ORIT ALSTER
Executive Vice President
Head of Corporate Banking Division

YAFIT GARIANI
Executive Vice President
Head of Human Resource and Properties Division

LEVY HALEVY
Executive Vice President
Head of Technologies and Operations Division

Avraham (AVI) LEVY
Senior Executive Vice President
Chief Risk Officer and Head of Risk Management Division

NIR ABEL
Executive Vice President
Internal Auditor

MICHAL SOKOLOV-DANOCH
Corporate Secretary

BOARD OF DIRECTORS AND MANAGEMENT REPORT

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

2016 was characterized by intensive activity and by targeted business growth in the fields of activity defined as the goals of the strategic plan. The 2016 financial statements reflect the results of the operations performed at the Bank and at the Group, both in the balance sheet data, which show the impressive credit and deposits growth and the increase in the capital base, and also in the profitability data, which reflect an increase in revenues and control over operating expenses. Needless to say, these trends will also be expressed in the financial statements in the coming years.

Discount Group is currently fully engaged in an ongoing and dynamic process of implementing the strategic plan, in accordance with frequent changes in the business environment. Within the framework of the plan, targeted areas of the Bank and of its subsidiaries have been clearly and plainly defined: growth in the retail segment; operational efficiency; and focusing on the business activities of the Bank’s customers. This is to be done concurrently with an ongoing process of assimilating a change supporting organizational culture, constituting the foundation stone for the plan’s implementation.

During the passing year, the Board of Directors approved the acceleration of the original strategic plan, which includes many efficiency levers at all the Group companies, including a reduction in the size of the Group’s workforce and also an acceleration in the real estate efficiency at the Bank’s branches and head office.

In September 2016, the Bank completed an equity raising, through the issuance of shares and option warrants, in an amount of NIS 760 million, assuming full exercise. The proceeds from the issuance created a capital infrastructure for increasing the Bank’s revenues on the basis of the existing operating costs. This measure enabled the credit portfolio to grow even beyond that foreseen in the original work plan.

In November 2016, an agreement was signed with the employee representative committee which included two components. The first component is the extension of the Labor Charter through 2021 and the consent to changes that allow managerial flexibility and measures to change the organizational culture that correlates with the changing business environment. The second component is a precedent-setting wage agreement that establishes for the first time a payment mechanism based on shekel amounts salary increments (rather than proportional increments previously granted in percentages) aimed at narrowing the salary gaps at the Bank.

In the past year the Bank carried out a series of infrastructure projects, intended to enable a beneficial service to customers. The digital department was established during the year designed to continue and provide innovation in the digital service to customers, while creating advanced technological solutions, suitable to the customer’s needs and requirements.

The combination of these two significant measures, growth alongside operational efficiencies and the formulation of the wage agreement, were intended to ensure a continuation of the process of consistent improvement in which the Group finds itself, to increase revenues and to improve profitability, return on capital and efficiency ratios. The implementation of the strategic plan in the coming years is expected to lead to a significant improvement in the personal and digital service environment that we provide for our customers. We believe that these improvements will allow us to provide a personal touch and a high quality and more efficient service over a range of channels, while maintaining the Bank's family.

The Group management approach, which is applied in the relationships between the Bank and its subsidiaries, places emphasis on the synergy with the Bank, utilizing the potential of the subsidiaries and the formulation of a unique strategic plan to the principal subsidiary companies. ICC is formulating a new strategic plan, against the background of the Strum Committee’s conclusions; during the year, MDB approved a new strategic plan, which defines the targeted segments and the segmentation of customers.

Concurrently with implementing the five-year strategic plan, the Bank is gazing beyond the immediate horizon. The technological revolution is rapidly altering the banking world. However, it seems that there is no consensus regarding the dominant future banking model, and overseas and Israeli banks are taking different approaches to implementing innovations and aligning themselves with customer tastes and needs. Concurrently with the measures being taken to align the service channels with frontline technologies on the Bank’s website and its mobile application, which were completed in 2016, the Group is making preparations for future banking, including creating a unique customer experience, leveraging advanced data-usage capabilities and the introduction of innovative banking models.

Despite the changeable and dynamic external environment, we are doing all in our power to uphold the banking legacy bequeathed to us by the Bank's founders, which combines family values and a warm and personal relationship, with uncompromising professional fairness. We act with determination to attain the ambitious goals of change that we have set ourselves and in meeting the challenges that still await us, but at the same time we undertake to maintain the "Discount" spirit that makes us unique and differentiates us from our competitors.

I remain convinced that the Bank's Management, with the support and backing of the Board of Directors, and with the cooperation of our dedicated and committed employees, we will continue working to achieve the goals of the strategic plan and to successfully deal with the challenges of the business, economic and regulatory environment.

March 27, 2017

Dr. Yossi Bachar
Chairman of
the Board of Directors

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

The meeting of the Board of Directors, held on March 27, 2017, resolved to approve and publish the Bank's 2016 Annual Report.

THE DISCOUNT GROUP - CONDENSED DESCRIPTION AND PRINCIPAL AREAS OF OPERATION

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)").
During the eighty one years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

DOMESTIC OPERATIONS

Discount Bank offers its customers comprehensive banking services, in all areas of financial activity, through 122 branches in Israel, direct banking services, on-line banking and Internet services.
The Bank has one banking subsidiary in Israel - Mercantile Discount Bank Ltd. ("MDB") - a commercial bank serving customers in all fields of financial activity through 78 branches.
The activities in Israel also include:

- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use;
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd., ("Tafnit") which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Discount Capital Ltd." (formerly known as: "Israel Discount Capital Markets and Investments Ltd.") is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

INTERNATIONAL ACTIVITY

The international activity of the Discount Group is conducted by the subsidiary company in the United States. IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida and California. This bank has representative offices in Latin America and in Israel.
The international activity is characterized as business-commercial and private banking activity.

MARKET SHARE

Based on data relating to the banking industry as of September 30, 2016, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows:

	September 30, 2016	December 31, 2015
	In %	
Total assets	14.9	14.8
Credit to the public, net	15.0	14.2
Deposits from the public	14.9	14.7
Interest income, net	17.3	17.1
Total non-interest income	18.5	15.9

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE LAST FIVE YEARS

	As at December 31				
	2016	2015	2014	2013	2012
	in NIS millions				
Interest income	5,671	5,267	5,736	6,822	7,847
Interest expenses	1,102	1,042	1,518	2,572	3,388
Interest income, net	4,569	4,225	4,218	4,250	4,459
Credit loss expenses	469	187	164	580	726
Net interest income after credit loss expenses	**4,100**	**4,038**	**4,054**	**3,670**	**3,733**
Non-interest Income					
Non-interest financing income	754	363	549	632	352
Commissions	2,585	2,611	2,586	2,704	2,685
Other income	100	79	18	20	220
Total non-interest income	**3,439**	**3,053**	**3,153**	**3,356**	**3,257**
Operating and other Expenses					
Salaries and related expenses	3,416	3,396	4,086	3,609	3,479
Maintenance and depreciation of buildings and equipment	1,067	1,158	1,161	1,182	1,224
Amortization of intangible assets	-	-	-	-	10
Other expenses	1,331	1,171	1,167	1,146	1,120
Total operating and other expenses	**5,814**	**5,725**	**6,414**	**5,937**	**5,833**
Profit before taxes	1,725	1,366	793	1,089	1,157
Provision for taxes on profit	753	568	271	269	406
Profit after taxes	972	798	522	820	751
Bank's share in profit of affiliated companies, net of tax effect	15	9	27	45	104
Net Profit :					
Before attribution to non-controlling rights holders	987	807	549	865	855
Attributed to the non-controlling rights holders	(82)	(57)	(44)	(35)	(56)
Net Profit attributed to bank's shareholders	**905**	**750**	**505**	**830**	**799**
Earnings per share of NIS 0.1 (in NIS):					
Total earnings per share attributed to Bank's shareholders	(1)**0.84**	**0.71**	**0.48**	**0.79**	**0.76**

Footnote:

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

CONSOLIDATED BALANCE SHEETS AS OF THE END OF THE LAST FIVE YEARS

	As at December 31				
	2016	2015	2014	2013	2012
	In NIS millions				
Assets					
Cash and deposits with banks	29,311	28,518	31,694	25,319	24,100
Securities	38,818	38,935	37,353	41,325	46,001
Securities borrowed or purchased under resale agreements	440	279	466	102	387
Credit to the public	142,904	129,268	122,172	117,993	119,696
Provision for credit loss	(2,144)	(2,052)	(2,049)	(2,134)	(2,085)
Credit to the public, net	140,760	127,216	120,123	115,859	117,611
Credit to Governments	737	515	1,533	1,835	1,696
Investments in affiliated companies	157	144	142	1,668	1,724
Buildings and equipment	2,295	2,175	2,291	2,528	2,757
Intangible assets and goodwill	160	142	142	142	142
Assets in respect of derivative instruments	3,283	3,208	4,596	4,080	3,727
Other assets	3,589	3,696	3,890	3,595	2,735
Noncurrent assets held for sale	27	432	4,955	4,204	-
Total Assets	**219,577**	**205,260**	**207,185**	**200,657**	**200,880**
Liabilities and Equity					
Deposits from the public	172,318	(1)157,875	(1)153,418	(1)149,475	(1)152,503
Deposits from banks	5,342	3,907	5,547	4,213	3,720
Deposits from the Government	303	(1)306	(1)357	(1)425	(1)437
Securities loaned or sold under buy-back arrangements	3,543	3,833	3,984	3,644	5,452
Subordinated capital notes	8,498	9,570	10,638	11,664	12,284
Liabilities in respect of derivative instruments	3,570	3,475	4,475	4,898	4,708
Other liabilities	11,067	10,985	11,126	10,408	9,773
Liabilities held for sale	-	1,675	4,651	3,931	-
Total liabilities	204,641	191,626	194,196	188,658	188,877
Equity capital attributed to the Bank's shareholders	14,512	13,288	12,599	11,702	11,713
Non-controlling rights in consolidated companies	424	346	390	297	290
Total equity	14,936	13,634	12,989	11,999	12,003
Total Liabilities and Equity	**219,577**	**205,260**	**207,185**	**200,657**	**200,880**

Footnote:
(1) Reclassified - see Note 1 G.

DISCOUNT GROUP SEGMENT OF OPERATIONS – CONDENSED DESCRIPTION

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

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

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

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

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

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

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

250 million.

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

"Institutional Bodies Segment" – Activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).

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

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

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

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

For additional details, see Activity of the Group according to regulatory segments of operations - principal quantitative data and main developments" in Chapter B hereunder, and Notes 29 and 30 to the financial statements.

CONDENSED FINANCIAL INFORMATION REGARDING FINANCIAL POSITION AND OPERATING RESULTS

Profitability

	For the year ended December 31			Change in %	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
	In NIS millions				
Interest income, net	4,569	4,225	4,218	8.1	0.2
Credit loss expenses	469	187	164	150.8	14.0
Profit before taxes	1,725	1,366	793	26.3	72.3
Provision for taxes on profit	753	568	271	32.6	109.6
Profit after taxes	972	798	522	21.8	52.9
Profit Attributed to the Bank's Shareholders	905	750	505	20.7	48.5
Profit Attributed to the Bank's Shareholders – disregarding certain components (see below)	980	804	896	21.9	(10.3)
Comprehensive income, attributed to the Bank's shareholders	613	719	905	(14.7)	(20.6)
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	(1)0.84	0.71	0.48		
The ratio of Profit before taxes to total equity in %	12.4	10.3	6.6		
The ratio of Profit after taxes to total equity in %	7.0	6.0	4.4		
Net return on equity attributed to the Bank's shareholders, in %	6.6	5.8	4.2		
Net return on equity attributed to the Bank's shareholders, in % – disregarding certain components (see below)	7.2	6.2	7.4		

Footnote:

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

Profitability - disregarding certain components

		For the year ended December 31			Change in %	
		2016	2015	2014	2016 compared to 2015	2015 compared to 2014
	Notes	in NIS millions				
Net Profit Attributed to the Bank's Shareholders - as reported		905	750	505	20.7	48.5
Disregarding:						
Gains on the sale of rights in Visa Europe	36 F	(178)	-	-		
Effect of settlement	23 J	90	-	-		
Retirement plans(1)	23 G and H	-	(1)19	341		
Loss from sale of operations of foreign investee companies	15 E	-	14	50		
Provision in ICC for arrangement replacing criminal proceedings	36 E	54	-	-		
Effect of the change in tax rate	8 K	109	21	-		
Net Profit Attributed to the Bank's Shareholders - disregarding certain components		**980**	**804**	**896**	**21.9**	**(10.3)**
Net Profit Attributed to the Bank's Shareholders, in % - disregarding certain components		**7.2**	**6.2**	**7.4**		

Footnote:

(1) Increased compensation to employees of an investee company overseas whose operations were sold

Balance Sheet

	December 31, 2016	December 31, 2015(1)	
	In NIS millions		Change in %
Total assets	219,577	205,260	7.0
Credit to the public, net	140,760	127,216	10.6
Securities	38,818	38,935	(0.3)
Deposits from the public	172,318	(2)157,875	9.1
Equity attributed to the Bank's shareholders	14,512	13,288	9.2
Total equity	14,936	13,634	9.5

Footnotes:

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

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

Financial Ratios

	2016	2015	2014	2013	2012
			in %		
Ratio of total equity to total assets	6.8	6.6	6.3	6.0	6.0
Ratio of credit loss expenses to the average balance of credit to the public	0.34	0.15	0.14	0.49	0.61
Ratio of credit to the public, net to total assets	64.1	62.0	58.0	57.7	58.5
Ratio of credit to the public, net to deposits from the public	81.7	(3)80.6	(3)78.3	(3)77.5	(3)77.1
Ratio of deposits from the public to total assets	78.5	(3)76.9	(3)74.0	(3)74.5	(3)75.9
Ratio of total non-interest income to operating and other expenses	59.2	53.3	49.2	56.5	55.8
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	55.3	53.7	54.4	56.5	55.8
Ratio of operating expenses to total income	72.6	78.7	87.0	78.1	75.6
Ratio of total non-interest income to operating and other expenses – disregarding certain components (see below)	72.8	78.1	78.6	78.1	75.6
Risk assets adjusted return(1)	6.7	5.8	4.3	7.8	7.8
Risk assets adjusted return(1) – disregarding certain components (see below)	7.2	6.2	7.6	7.8	7.8
Leverage ratio(2)	6.6	6.5			
Liquidity coverage ratio(2)	146.5	128.0			

Footnotes:

(1) Return on capital computed on the average balance of risk assets in accordance to the Bank's minimal capital goal for the end of the relevant year (2016 - 9.15%, 2015 - 9.06%, 2014 - 8.5%, 2013 - 8.0%, 2012 - 7.5%).

(2) The ratio is computed (since 2015) in respect of the three months ended December 31.

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

Ratio of capital to risk assets

Basel III	December 31, 2016	December 31, 2015
	in %	
Ratio of common equity tier 1 to risk assets	9.8	9.5
Ratio of total capital to risk assets	13.8	14.3

Developments in the market price of the Discount shares

	Closing price at end of the trading day			Rate of change in 2016 in %
	March 22, 2017	December 31, 2016	December 31, 2015	
Discount share	805	801	706	13.4
The Banks index	1,634.83	(1)1,578.90	(1)1,340.17	17.8
The TA 25 index	1,416.01	(2)1,470.78	(2)1,528.74	(3.8)
Discount market value (in NIS billions)	9.22	9.07	7.44	21.9

Footnotes:

(1) TA Bank index.

(2) TA 25 Index.

A SUMMARY DESCRIPTION OF THE PRINCIPAL RISKS

Risk environment. Risk of impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political, geopolitical and cyber threats and from internal factors and events.

Overall impact of credit risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of the deterioration in the ability of borrowers to honor their obligations.

- **Quality of borrowers and collaterals.** Risk of impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- **Industry concentration risk.** Risk of impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the business activity of a certain economic sector.
- **Borrower/groups of Borrowers.** Risk of impairment in the Group's value and its ability to attain its goals, as a result of the considerable exposure to a single borrower and/or to several borrowers belonging to one business group, which, in the case of changes in the economic situation, might lead to increased severity in the potential impairment of the credit portfolio, inter alia, because of the risk of contagion.

Overall impact of market risks. Risk of impairment in the Group's value and its ability to attain its goals, as a result from changes in the economic parameters of the financial markets, and of their volatility that affect both the economic value and also the regulatory capital ratio.

- **Interest rate risk.** The risk of impairment, as stated, due to parallel and non-parallel movements in the return graph, and the effect of the optional terms inherent in the different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment as stated, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities.
- **Share price and credit spreads risks relating to the holding of securities.** The risk of impairment as stated, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices.

Liquidity risk. The risk to the stability of the Group resulting from the inability to provide its liquidity requirements and the difficulty in honoring its liabilities, due to unexpected developments, as a result thereof, the Group would be obliged to raise funds and/or realize assets in a manner causing it material losses.

Operating risk. Risk of a loss, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, including business continuity events, human errors, fraud and embezzlements or as a result of the absence of proper control processes.

IT risk. Operational risks affecting IT systems in production, cross-organizational IT processes and new activities: project risks and risks associated with the launch of systems into production. Likewise, a risk of business harm to the value of the Group and to its ability to attain its goals, as a result of lack of technological preparedness, including in business continuity situations.

Data protection and cyber risks. Risks of harm, as a result of events during which an attack is perpetrated on the computer systems and/or on the computer-based infrastructure systems, by, or on behalf of, adversaries (from either outside or inside the corporation).

Legal and regulatory risk. Legal risk is the risk of loss, inter alia, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank, or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature, stemming, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank.

Cross-border risks. Risk of loss, as a result of a statutory or regulatory sanction, or harm to the reputation, as a result of noncompliance with foreign statutory or regulatory provisions, applicable to the cross-border activity of the Group and as result of the Group’s responsibility for the cross-border activity of its customers, conducted by means of the services of the Bank.

Compliance, Money Laundering and Financing of Terror risks. Risk of loss, as a result of statutory or regulating sanction, or harm to the reputation, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror.

Reputation risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the cross-border risks, compliance risks and money laundering fields, etc.

Strategic risk. Business risk, either of action, such as: misled business decisions or improper implementation of business decisions, or neglect, such as: lack of response to changes in competition which, if it materializes, could lead to impairment in the Group's value and its ability to attain its goals.

For additional 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 was 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 comprised several principal layers:

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

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

C. Assimilating a change supporting organizational culture:

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

Since launching the plan, the Bank has successfully made significant progress in implementing all aspects of the strategic plan, both in improving capabilities and infrastructure and also in the actual results. Thus, since the plan's launch through the end of 2016, the size of the Bank's workforce has been reduced by 955 employees and premises have shrunk by 14,500 square meters. Concurrently, the Bank sold the operations of Discount Bank Latin America ("DBLA"), sold the operations of IDB (Swiss) Bank, and closed down the London Branch. Likewise, the Bank sold its interest in FIBI. These actions contributed to the Bank attaining the capital adequacy goals set by the Bank of Israel already by the end of 2015. Due to these and other measures, the Bank managed to grow in 2016 in a most significant manner in many fields of activity. Thus, for example, in 2016, total credit of the Discount Group grew by 10.6%, household credit grew by 15.5% and small and minute business credit by 10.6%.

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, toward the second half of 2016 and concurrently with the continuing implementation of the original strategy, the Bank began making preparations for future banking and, to this end, updating the strategic plan. 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.

A FURTHER NARROWING OF THE GAP WITH THE BANKING SYSTEM

This layer represents a continuation of the original strategic plan from 2014, and it largely consists of the same pillars as the original plan that were described above.

- Acceleration in efficiency measures and the strict management of expenses;
- Continuing accelerated growth in the core banking fields, with a focus on retail credit, housing credit and credit to small businesses;
- Continues diligence of improving the organizational culture, including integration of key performance indicators (KPI's) at all management levels at the Bank, and associating goal attainment with remuneration.

A TRANSFORMATION IN TRADITIONAL BANKING

In order to create a lead in the Bank's customer satisfaction by means of customer adapted banking, the Bank is focusing on a number of principal topics:

A. Development of communication channels, including upgrading of digital channels and the opening of new communication channels;
B. Upgrading of service centers (including the branch layout, the TeleBank and the back office);
C. The formation of a synchronized multichannel management platform that ensures customer service quality;
D. Producing information-based business perceptions aimed at enabling customers to receive the value proposition that is best and most suited to them.

DEVELOPMENT OF INNOVATIVE BANKING MODELS

he Bank is putting to the test a number of solutions and innovative banking models. This, with a view of expanding to new customer populations and to additional platforms and services, as part of the value offer by the Bank.

STRATEGIES FOR THE SUBSIDIARY COMPANIES

Concurrently with the updated strategic plan at the Bank, the Group acts to formulate unique strategies for the principal subsidiaries – ICC and MDB – with the aim of aligning their modus operandi to the new competitive environment:

- ICC - is currently formulating a new strategic plan, with the assistance of an international consulting firm, against the background of the Law for Strengthening Competition and Reducing Concentration in the Israeli Banking Market.
- MDB - a new strategy was approved during 2016, the main points of which are: focusing on and accelerating growth in designated segments of the population, in which considerable expertise has been gained over the years of providing banking services, as regard to both households and small businesses, segmentation and adjustment of customer value offer and a step up in online channels.
- New York - updating the multi annual strategy following the removal of the internal limitation to cross the threshold of total assets of US$10 billion.

ASSIMILATION OF THE STRATEGIC PLAN

With the refreshing of the strategy, the projects map was also updated so that at the end of 2016 the Group is managing 28 strategic projects at the end of 2016.

GOALS OF THE STRATEGIC PLAN

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.

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.

For the definition of the term "forward looking information", see "Appendix No. 6 – Glossary".

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

2016 was the second year of operation in which was implemented the strategic plan announced by the Discount Group in August 2014. In 2016, Discount Bank instituted three central moves, significant to the organization and having a material impact on its outline of development in the coming years: approval of an accelerated efficiency plan, the raising of capital and the signing of a wage agreement for the years 2014-2018, including extension of the validity of the Labor Charter by five years. In addition, at the beginning of 2017, the Bank completed the issue of subordinated debt notes, being capital instruments classified as Tier 2 capital.

APPROVAL OF THE EFFICIENCY PLAN

The Bank's Management has formed a plan for accelerating the efficiency, in the center of which is the reduction in the manpower status of the Discount Group by approx. 1,000 additional employees by the year 2021, both by early retirement and natural retirement. The Bank's Board of Directors approved the plan on September 13, 2016. (For additional details, see below "Efficiency of the banking industry – 2016 efficiency plan" and Note 23 J to the financial statements).
Formation of the plan and the approach to employees were backed up by detailed planning actions at the unit level, by providing professional advisory services to employees considering retirement, and by management of the risks involved in a massive retirement of employees, particularly in the area of knowhow preservation. The Bank's Management continues its strict and restraining management of the manpower status and payroll expenses, in a manner that would ensure the preservation of the retirement achievements.

THE RAISING OF CAPITAL

On the background of the accelerated growth of the Bank's credit portfolio, and in order to enable the realization of the business growth potential, even beyond the existing strategic plan, the Bank has decided on the raising of Tier 1 capital. The addition to the Tier 1 capital is intended to enable a further growth in income on the basis of the existing infrastructure and with no additional expenditure. This, alongside the approval of the plan for the acceleration of the efficiency, as stated above. The combination of the said significant actions, growth alongside efficiency, is intended to increase income and improve the profitability, the return on capital and the efficiency ratios of the Bank.
Within the framework of this move, the Bank issued shares and option warrants for an immediate gross consideration of NIS 580 million, and under the assumption of the exercise in full of NIS 763 million (see Note 24 D to the financial statements).

THE SIGNING OF A WAGE AGREEMENTUNTIL 2018

On November 30, 2016, the Management of Discount Bank and the national committee of Discount Bank employees signed a new wage agreement for the years 2014-2018.

The wage agreement contains new sections and changes comprising a precedent in the banking sector. The central change is in the mechanism for the increase in wages. Until now, wage agreements contained proportionate wage increases expressed in percentages. The new agreement states, or the first time, a payment mechanism based on shekel wage increases, This mechanism reduces wage differences at the Bank and benefits low wage employees. At the same time, new sections were introduced with the aim of increasing administrative flexibility and helping the Bank in facing the changing reality.

The labor charter has been extended, within the framework of the agreement, until the year 2021, while making changes to several significant sections. Extending the validity of the labor charter ensures industrial peace until the termination date of the agreement (see "Human Capital" in the chapter "Additional details regarding the business of the banking corporation and management thereof").

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 is expected to contribute 0.5% to the overall capital ratio in December 31, 2016 terms.

THE UNCOMPROMISING IMPLEMENTATION OF THE STRATEGIC PLAN

The Change Administration established in 2014 continues to take the lead in coordinating the change programs, assisting with their realization, monitoring and controlling progress and reporting to management and to the Board of Directors. The monitoring and control over progress of the strategic projects is performed by means of a unique implementation mechanism, which includes financial and other goals that are linked to each project. Moreover, weekly monitoring is regularly performed over the progress of the projects at several levels – project managers, the administration head, members of management in charge of the projects, and overall management.

Each of the projects is led by a project manager and a designated work team. The project teams at the Bank and at the subsidiary companies have acted and continue to act towards implementation of the many projects stemming from the strategic plan, including the business focus on growth, in greater efficiency, in a change in the organizational culture, in improvement in the infrastructure, in improved customer experience, developing the digital operation, in various channels.

The Discount Group grew at a significant growth rate in 2016, mainly in the field of credit granted to target populations, as defined in the strategic plan. The management of the capital of the Group is strict. The Group's financial base is robust and has become even stronger. As of December 31, 2016, the ratio of equity capital to Tier I amounts to 9.8% and the liquidity coverage ratio amounts to 146.5% (on the basis of an observation average). This is the capital infrastructure that allows the Group to continue growing.

Many changes have been implemented in the course of the year, among which, the continued implementation of "Lean" processes and the operation of the banking service center, which contribute to growth and an increase in income, alongside efficiency measures and the reduction in expenses generally and in payroll expenses in particular.

Ample attention has been given also this year to the reduction in office space used by the Bank. Several branches were merged, and several buildings (used by branches and by Head Office units) were vacated and part of them were sold. These measures resulted in direct savings in the expenditure of the Bank. In addition, the Board of Directors has approved an outline for the construction of a Discount Complex, which in the first stage, is expected to concentrate all operating units of the Bank, including the establishment of a new central computer facility for the Bank.

In the course of 2016, the Bank continued to invest in the digital field, while emphasizing the development of online channels providing a superlative customer experience. Work in this field was led by the digital department established in June 2016, which included, inter alia, the development of a new application for private customers, the introduction of financial planning tools and more.

The integration of a change supporting organizational culture continued to form a central goal for the Bank's Management. The upgrading of the infrastructure in the field of human resources has gained momentum and made progress.

Concurrently with establishing the infrastructure defined in the current strategic plan, and in light of the changes that have taken place in the business and regulatory environment, Management formulated the next stage of the strategic plan for the coming years (see "Goals and business strategy" above).

ADDITIONAL ISSUES:

- Both the Bank and ICC have reviewed the possible implications of changes in the financial system, following the conclusions and recommendations of the Committee for the Increase of Competitiveness in Banking and Financial Services in Israel ("the Strom Committee"; see below "Legislation and Supervision");
- The Bank has continued to devote and invest considerable managerial efforts and attention to the preparations and upgrading of the infrastructure required to deal with cyber risks and cross-border risks, all this alongside the continued integration and assimilation of the risk management culture and compliance;
- The Managements of the Bank and of ICC had considered the alternatives regarding the announcement of the State Attorney Office in the matter of the prima facie suspicions against ICC, and having in mind the benefit of ICC, conducted negotiations with the State Attorney Office. These were concluded in November 2016 with the signing of an arrangement in lieu of criminal proceedings (see below – "ICC – Material developments").

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 2016.

Growth. The year 2016 was typified by an economic and political uncertainty environment and by a moderate global growth. The U.S. economy grew at a moderate rate of 1.6%, following a growth of 2.6% in 2015. As estimated by the IMF, the global product grew in 2016 by 3.1%, and is expected to grow in 2017 by 3.4%. The Bank estimates that the Israeli economy would grow in 2017 by 3.3%, as compared with a growth of 4% in 2016.

Exchange rates. During the year 2016, the shekel gained ground against most currencies in the world, including the US dollar. In terms of the effective exchange rate, the shekel strengthened during the year by 4.8% reaching a record level.

Inflation. Israeli inflation in the 12 months ended in December 2016 amounted to a negative rate of 0.2%. The negative inflation stems from the low global inflation, the strengthening of the shekel, the administrative lowering of prices and additional policy measures encouraging competition and reducing consumer prices. Consequently, the low inflationary environment does not indicate a downturn in demand in the economy. The Bank estimates that inflation at a nullified rate, similar to 2016.

Monetary policy. For quite a long period, central banks around the world keep adopting an expansionary monetary policy. The year 2016 was also marked by an expansionary monetary policy. The United States was the only economy which raised the interest rate during the passing year, even though also its monetary policy remained expansionary. In Israel interest remains at a historic low of 0.1% and, in the Bank's opinion, it is not predicted to change during 2017.

Financial markets. High volatility was recorded in the first half of the year in the equities markets around the world. This mostly in view of concerns regarding an acute slowdown in economic growth in China and towards the Brexit Referendum in Great Britain. A rise in share prices and a decline in volatility were recorded in the beginning of the second half, despite the British decision to exit the European Union. Volatility had returned towards the U.S. elections, but with the success of Trump, optimism returned to the market and a steep rise in prices was recorded. A trend of reduction in returns on government bonds was recorded in the first nine months of the years. The fourth quarter recorded a steep rise in returns on the background of expectations for a significant fiscal expansion that would lead to a faster increase in interest rates in the medium and long term. It is noted, that at this stage it is still early to estimate the policy measures that Trump would introduce and what would their impact be on the U.S. economy and on the global economy. A similar trend was recorded with respect to Israeli government bonds, though a more moderate one. At the end of the year, the return on shekel government bonds for ten years (SGB 1026 series) reached 2.1%.

The first quarter of 2017. The current macro-economic data for the months of January-March 2017 indicate acceleration in the global growth environment, led by private consumption, but also on the background of a positive trend in the manufacturing sector. A rise in the inflationary environment was recorded globally, on the background of the rise in energy prices in the course of 2016. The U.S. economy is positively outstanding in comparison with the other developed economies with a rise in the core inflation and the continuing improvement in the employment market. The election of Mr. Trump for president led to a surge of optimism, which was reflected both in the financial markets and in the sentiment indices of the business and private sectors. This, on the background of expectations for a significant fiscal expansion and mitigation in regulation.

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 annual report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.

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

LEADING AND DEVELOPING RISKS

In accordance with the FSB’s recommendations, a leading risk is defined as a development occurring in the bank’s business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.

Following are details regarding the most material leading and developing risks.

Cyber risks and data protection. The level of risk regarding the realization of cyber threats and data protection is growing in recent years in Israel and around the world. The level of ingenuity, the complexity of the attack and the variety of methods and ingenuity are increasing and so is the involvement of organized crime factors and of government agencies.

The threat is intensifying, because due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cybernetic world has grown.

With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate a major part of the resources for the facing of such threats, including their direct involvement.

The magnitude of the threat and its uniqueness led to the risk being defined as a separate category of risk in the current risk management processes, in the ICAAP and for reporting purposes within the framework of the annual report.

A strict approach has been applied in the risk assessment processes, and accordingly the residual risk level has been assessed at a medium-high level, but it derives primarily from systemic characteristics of the risk and the risk environment, and the need to create an inclusive, up-to-date and appropriate working framework at the level of the Bank.

Cyber defense strategy, information technology management and cyber defense and data protection policy documents have been formed, updated and approved, a cyber defense manager has been appointed and designated professionals have been engaged.

The Group preparations continue, for regulation in accordance with instructions of the Supervisor of Banks (Proper Conduct of Banking Business Directive No. 361), on the basis of a multi-annual work plan, with an emphasis on improvement of tools for the monitoring and control of the risk.

Cross-border risks. The Group's activity in Israel and abroad with customers involves risks stemming, among other things, from exposure to liability for evasion of any of the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of the foreign laws applicable to the services and products provided by the Group to its customers.

Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.

Realization of this risk may have considerable implications for the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high", primarily against a background of systemic characteristics and the scope of the potential exposure, in the case of an exposure event.

Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, the risk appetite has been determined and identification, monitoring, control and reporting processes have been added.

Moreover, the action for reducing the Group's international presence, taken as part of the implementation of the Bank's strategic plan, also contributed to the reduction of cross-border risks exposure.

For additional 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" available for review on the Internet.

INITIATIVES CONCERNING THE BANKING SECTOR AND ITS OPERATIONS

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

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 the owner banks, 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 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 December 31, 2016, 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".

ISRAEL CREDIT CARDS - MATERIAL DEVELOPMENTS

NOTICES BY THE STATE ATTORNEY

Background - events regarding the clearing of international electronic trade transactions and other matters. In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months. ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management (fuller details regarding this matter were presented by ICC in its annual financial statements for 2009 and 2010).

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

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

On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering. On the same day, the Supervisor of Banks informed ICC, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC. The Supervisor of Banks announced on March 9, 2017, the removal of the restriction.

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

Arrangement replacing criminal proceedings. A conditional arrangement, in terms of Item A1 of Chapter "D" of the Criminal Proceedings Act (Combined version), 1982, was signed on November 3, 2016, between the economic department of the State Attorney Office and ICC. This agreement will lead to the closure of the investigation case by an arrangement, replacing criminal proceedings, subject to the terms stated below.

Within the terms of the arrangement, ICC admitted the facts relating to two affairs involving international electronic clearing, made by ICC International (a subsidiary of ICC that was merged into ICC in December 2009), in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC refers in the arrangement, were not personally known to the Officers approving the arrangement, and came to their attention only through the letter of suspicion delivered to ICC by the State Attorney Office. Approval of the arrangement, as stated, has been given after consideration of other alternatives and bearing in mind the benefit of the company.

The arrangement required ICC to operate in accordance with binding internal procedures in writing, for a period of one year from date of signing the arrangement, including matters of supervision and control mechanism that would ensure prevention of the admitted offences being repeated. ICC declared in the arrangement that the adoption of the procedures and organizational changes detailed in the arrangements had been implemented in practice by it, even prior to the signing of the arrangement.

It was agreed by the parties that under the terms of Section 67C(a)(5) and Section 5 of the fifth Addendum to the Criminal Proceedings Act (Combined version), 1982, ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture.

Subject to the fulfillment by ICC of the terms of the arrangement, the State Attorneys Office has committed to close the case against ICC. The State Attorney Office has committed not to conduct an investigation and not to serve an indictment, including any other proceedings, either civil or administrative, against ICC and/or any other related company thereof, and/or against any present or former Officer of these companies, with the exception of two Officers who had officiated therein in the past.

The arrangement clarifies that nothing in the admission of ICC may implicate any other person, including Officers and any other employee of ICC or of a related company thereof, and that nothing in the said admission could serve as evidence in any proceeding.
An expense in the amount of NIS 85 million was recognized in the books of ICC in 2016 in respect of the said arrangement.
Approach according to Section 194 of the Companies Law and a Motion for approval of a derivative claim. For details, see Note 36 E (3) and (4) to the financial statements.

ACQUISITION OF VISA EUROPE

On November 2, 2015, VISA Inc. and VISA Europe Ltd. announced entry into an agreement whereby VISA Inc. will acquire VISA Europe from the principal members who were holding its shares. All as detailed in the immediate reports dated November 3, 2015 and December 24, 2015 (Ref. No. 2015-01-147192 and No. 2015-01-187911), the information presented therein is stated here by way of reference.
On June 21, 2016, after having obtained the regulatory approvals, the immediate cash consideration in the amount of Euro 71 million, was received in accordance with the stated terms. An additional future cash consideration of Euro 6 million, which is expected to be received. In addition, ICC received preferred shares convertible into shares of VISA Inc., which are blocked for periods of four to twelve years. Their value at the transaction date is estimated at Euro 26 million (“Naive Value”). It is clarified that the conversion ratio of the preferred shares might under certain conditions, be reduced in the future.
The consideration for the transaction was divisible among the Bank, ICC and FIBI, all having the status of "Principal Member" in VISA Europe. The division will be conducted in the future in accordance with an agreed division mechanism formed by the parties. The division mechanism has been approved by the authorized organs of the parties.
Following the consummation of the transaction a net profit of approx. NIS 178 million was recognized in the financial statements for 2016.
On July 5, 2016, VISA Europe informed that following the consummation of the transaction, the rebates program for members of the organization will be terminated as from October 1, 2016. VISA Europe announced on July 22, 2016, an increase in the amounts of clearing fees charged by it, starting on January 1, 2017.
On June 20, 2016, ICC and VISA Europe signed an agreement for the years 2016-2019. This agreement replaces an earlier agreement signed by the parties in April 2013. According to the amendment to the agreement, ICC is expected to receive supporting awards from VISA in the years 2016 to 2019.
Based on information received from ICC, the Bank estimates that the said changes are not expected to have a material impact on the Bank's profits.

EFFICIENCY OF THE BANKING INDUSTRY

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.
Letter of the Supervisor of Banks in the matter of operating efficiency of the banking industry in Israel. A letter by the Supervisor of Banks was published on January 12, 2016, according to which, banking corporations are required to outline a multi-annual efficiency plan. It is the Supervisor's intention to define a periodic reporting format to the Supervisor of Banks of the efficiency plan. The Supervisor would grant relief to banking corporations as regards the capital adequacy requirements, in respect of certain costs of the efficiency plan, subject to the conditions stated in the letter. The relief detailed in the letter shall apply to efficiency plans approved until December 31, 2016.
2016 Efficiency plan. On September 13, 2016, the Bank's Board of Directors approved an efficiency plan, following an examination by the Bank's Management of alternatives ways for implementing that stated in the letter and the formation of an outline and following an approval in principle by the Supervisor of Banks.

The approved efficiency plan comprises a significant expansion of the existing efficiency plan of the Group, forming a part of the strategic plan for the years 2015-2019. The approved efficiency plan includes early retirement of employees alongside natural retirement, which in total is expected to lead to a reduction in the workforce of some one thousand additional employees until 2021.

Following are the principal points of the early retirement plan and its implications:

1.1 According to the plan, some five hundred employees of the Group would be offered early retirement at beneficial terms, most of whom, until the end of 2016;

1.2 The beneficial terms offered to employees will include, inter alia, increased severance compensation at a rate of up to 265% and an award of NIS 50 thousand (to those whose salary had not been updated prior to retirement, and their salary for the purpose of calculating their severance pay is lower than NIS 20 thousand);

1.3 The total cost of the plan was estimated at approx. NIS 511 million (in excess of the cost of severance compensation under the law), of which an amount of NIS 60 million was already recognized in the financial statements for the first quarter of 2016 (see Note 23 to the financial statements);

1.4 Approx. NIS 141 million, gross (about NIS 90 million net after tax) was recognized in the statement of income until the end of 2016, the balance being spread over the average maturity period of the liability, which at present is twelve years, this in accordance with the accounting principles applying to the Bank;

1.5 The impact of the efficiency plan on the ratio of equity capital to risk assets is estimated at 0.15%, which will be recognized in installments over a period of five years.

It is noted that the data stated above is considered forward looking information, within the meaning of the term in the Securities Act, 1968. The scope of the efficiency plan as well as its impact on the statement of income and on capital adequacy during the period of the plan and thereafter, are, inter alia, dependent on the extent of response of the employees to the voluntary retirement offer in accordance with the terms of the plan and the characteristics of the retiree group (seniority, gender and salary level). Accordingly, the actual impact of the efficiency plan may materially differ from the data presented above.

For additional details, see Note 23 J and K to the financial statements. For details regarding the relief approved by the Supervisor of Banks as regards the capital adequacy computations, see Note 25 to the financial statements.

Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB). 1 additional employee signed a retirement agreement and is expected to retire until the end of the first quarter of 2017.

Efficiency regarding real estate. As an additional step in encouraging efficiency in the banking industry, the Supervisor of Banks published on March 8, 2017, a draft Directive which widens the definition of efficiency and encourages banks to study also the possibility of reducing expenses regarding real estate and the maintenance of Head Office and Management units, including by a re-examination of the geographical location of these units and their relocation from the centers of the large cities.

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

OPINION OF THE INDEPENDENT AUDITORS

In the opinion provided by the independent auditors on the financial statements for the year 2016, the independent auditors drew attention to Note 26 items 12.6 and 13 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

The Discount Group's Net profit in 2016 amounted to NIS 905 million, compared with NIS 750 million in 2015, an increase of 20.7%. Disregarding certain components (see table above), the profit for 2016 would amount to NIS 980 million, compared with NIS 804 million, an increase at a rate of 21.9%.

Return on equity, net, attributed to the Bank's shareholders for 2016 was 6.6%, compared with 5.8% in 2015. Disregarding certain components (see table above), the return in 2016 would have been 7.2%, compared with 6.2% in 2015.

Net earnings per one share of NIS 0.1 par value amounted in 2016 to NIS 0.84, compared with NIS 0.71 in 2015.

The main factors that had an effect on the business results of the Group in 2016, compared with 2015:

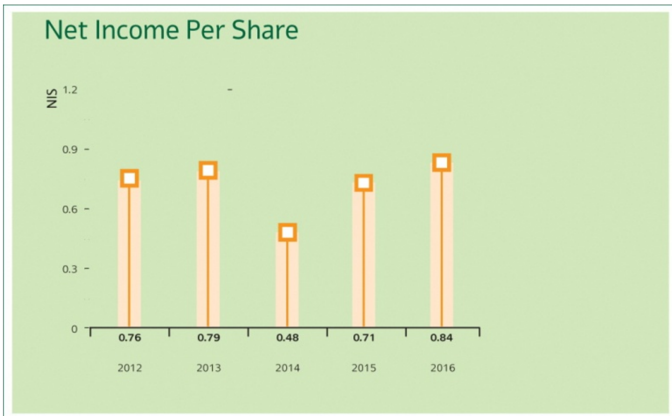
a. An increase in interest income, net, in an amount of NIS 344 million (8.1%).

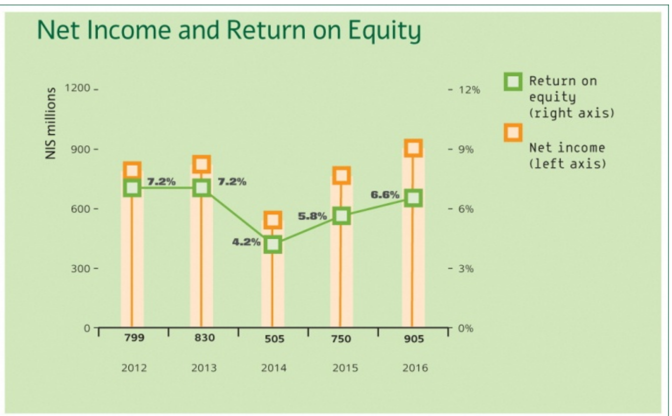
b. An increase in credit loss expenses, an amount of NIS 282 million (150.8%), an increase in particular, in expenses on a group basis, impacted mostly by the increase in credit balances.

c. An increase in the total non-interest income of NIS 386 million (12.6%), affected by an increase of NIS 391 million in non-interest financing income (107.7%), of which NIS 360 million relates to profit from the sale of the rights in Visa Europe (see Note 36 D to the financial statements), a decrease of NIS 26 million in commissions (1.0%) and an increase of NIS 21 million in other income, mostly from the realization of assets (26.6%).

d. An increase of NIS 89 million in operating and other expenses (1.6%), affected, mainly, by an increase of NIS 160 million in other expenses (13.7%), mostly NIS 85 million provision in ICC, an increase of NIS 20 million in salaries and related expenses (0.6%), see below "Salaries and related expenses", and from a decrease in the amount of NIS 91 million in maintenance and depreciation expenses of buildings and equipment (7.9%),affected by the reduction in depreciation and computer expenses and by the closure of foreign extensions.

e. Tax provision of NIS 753 million on earnings in 2016, compared with NIS 568 million in 2015. The provision for taxes in 2016 was impacted by a nonrecurring expense of NIS 109 million, following the reduction in the corporate tax rate (see Note 8 K to the financial statements).





Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2016 amounted to NIS 145 million, compared with NIS 188 million in the third quarter of the year, a decrease of 22.9%, and compared with NIS 60 million in the fourth quarter of 2015, an increase of 141.7%. With the elimination of certain components, see table below, the net profit in the fourth quarter of 2016 would have amounted to NIS 284 million, compared with a net profit of NIS 226 million in the third quarter of 2016, an increase of 25.7%.

The major factors affecting the business results of the Group in the fourth quarter of 2016, compared with the previous quarter, were:

A. A decrease in interest income, net, in an amount of NIS 17 million (1.4%).

B. An increase in credit loss expenses, in an amount of NIS 83 million (58.9%).

C. An increase of NIS 107 million (14.6%) in non-interest income, which was affected by a rise of NIS 53 million in income from the sale of investments in Discount Capital.

D. A decrease in operating and other expenses, in an amount of NIS 17 million (1.2%), which was effected mostly by a reduction of NIS 35 million in other expenses (9.4%), mainly a provision of NIS 45 million by ICC in the third quarter of 2016, from a reduction of NIS 18 million in maintenance expenses and depreciation of buildings and equipment (6.6%) and from an increase of 36 million in salaries and related expenses (0.6%), which were inter alia effected by settlement expenses of NIS 125 million in the fourth quarter of the year, compared to expenses of NIS 16 million in the previous quarter.

E. In the fourth quarter of 2016, provision for taxes on the profit was recorded, in the amount of NIS 172 million, compared with NIS 126 million in the previous quarter.

The provision for taxes in the fourth quarter of 2016 was affected by the nonrecurring expense of NIS 59 million, following the reduction in the rate of corporate tax (see Note 8 K to the financial statement).

DEVELOPMENTS IN INCOME AND EXPENSES

Developments in certain profit and loss statement items in 2016, compared with 2015

	For the year ended December 31		
	2016	2015	Change
	In NIS millions		in %
Interest income	5,671	5,267	7.7
Interest expenses	1,102	1,042	5.8
Interest income, net	4,569	4,225	8.1
Credit loss expenses	469	187	150.8
Net interest income after credit loss expenses	**4,100**	**4,038**	**1.5**
Non-interest Income			
Non-interest financing income	754	363	107.7
Commissions	2,585	2,611	(1.0)
Other income	100	79	26.6
Total non-interest income	**3,439**	**3,053**	**12.6**
Operating and other Expenses			
Salaries and related expenses	3,416	3,396	0.6
Maintenance and depreciation of buildings and equipment	1,067	1,158	(7.9)
Other expenses	1,331	1,171	13.7
Total operating and other expenses	**5,814**	**5,725**	**1.6**
Profit before taxes	1,725	1,366	26.3
Provision for taxes on profit	753	568	32.6
Profit after taxes	972	798	21.8
Bank's share in profit of affiliated companies, net of tax effect	15	9	66.7
Net profit attributed to the non-controlling rights holders in consolidated companies	(82)	(57)	43.9
Net Profit attributed to Bank's shareholders	**905**	**750**	**20.7**
Net return on equity attributed to the Bank's shareholders, in %	6.6	5.8	
Net Profit attributed to Bank's shareholders - disregarding certain components (see above)	**980**	**804**	**21.9**
Net return on equity attributed to the Bank's shareholders, in % - disregarding certain components (see above)	7.2	6.2	

Developments in certain profit and loss statement items in the fourth quarter of 2016, compared with the third quarter of 2016 and the fourth quarter of 2015

	2016		2015	Rate of Change Q4 2016 compared to	
	Q4	Q3	Q4	Q3 2016	Q4 2015
	In NIS millions			in %	
Interest income	1,432	1,519	1,234	(5.7)	16.0
Interest expenses	262	332	191	(21.1)	37.2
Interest income, net	1,170	1,187	1,043	(1.4)	12.2
Credit loss expenses	224	141	98	58.9	128.6
Net interest income after credit loss expenses	**946**	**1,046**	**945**	**(9.6)**	**0.1**
Non-interest Income					
Non-interest financing income	179	51	46	251.0	289.1
Commissions	653	675	649	(3.3)	0.6
Other income	6	5	1	20.0	500.0
Total non-interest income	**838**	**731**	**696**	**14.6**	**20.4**
Operating and other Expenses					
Salaries and related expenses	866	830	873	4.3	(0.8)
Maintenance and depreciation of buildings and equipment	254	272	289	(6.6)	(12.1)
Other expenses	338	373	292	(9.4)	15.8
Total operating and other expenses	**1,458**	**1,475**	**1,454**	**(1.2)**	**0.3**
Profit before taxes	326	302	187	7.9	74.3
Provision for taxes on profit	172	126	122	36.5	41.0
Profit after taxes	154	176	65	(12.5)	136.9
Bank's share in profit of affiliated companies, net of tax effect	3	15	4	(80.0)	(25.0)
Net profit attributed to the non-controlling rights holders in consolidated companies	(12)	(3)	(9)	300.0	33.3
Net Profit attributed to Bank's shareholders	**145**	**188**	**60**	**(22.9)**	**141.7**
Net return on equity attributed to the Bank's shareholders, in %[(1)]	4.1	5.5	1.8		
Net Profit attributed to Bank's shareholders - disregarding certain components (see as follows)	**284**	**226**	**114**	**25.7**	**149.1**
Net return on equity attributed to the Bank's shareholders, in %[(1)] - disregarding certain components (see as follows)	8.2	6.7	3.5		

Footnote:

(1) On an annual basis.

Profitability per quarter – after elimination of certain items

		2016		2015	Rate of Change Q4 2016 compared to	
		Q4	Q3	Q4	Q3 2016	Q4 2015
	Notes	In NIS millions			in %	
Net income attributed to the Bank's shareholders - as reported		145	188	60	(22.9)	141.7
Disregarding:						
Effect of settlement	23 J	80	10	-		
Loss from sale of operations of foreign investee companies and retirement plans[(1)]		-	-	33		
Provision in ICC for arrangement replacing criminal proceedings	36 E	-	28	-		
Effect of change in tax rate	8 K	59	-	21		
Net income attributed to the Bank's shareholders - disregarding the above components		**284**	**226**	**114**	**25.7**	**149.1**
Net return on equity attributed to the Bank's shareholders, in % - disregarding the above components		**8.2**	**6.7**	**3.5**		

Footnote:

(1) Increased severance pay for employees of foreign investee company whose operation was sold.

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

Interest income, net. In 2016, interest income, net, amounted to NIS 4,569 million compared with NIS 4,225 million in 2015, a decrease of 8.1%. The rise in the interest income, net, in the amount of NIS 344 million, is explained by a negative price impact of approx. NIS 6 million, and from a positive quantitative effect in the amount of approx. NIS 350 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 2.24% in 2016, compared with 2.13% in 2015.

The average balance of interest bearing assets has increased by a rate of approx. 2.3%, from an amount of NIS 183,908 million to NIS 188,168 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 0.5%, from an amount of NIS 141,772 million to NIS 143,688 million.

Net interest income according to linkage segments

Distribution of volume of operations according to interest bearing assets, net interest income and interest margin by linkage segments

	2016			2015		
	Volume of activity(1) in %	Interest income, net in NIS millions	Interest margin in %	Volume of activity(1) in %	Interest income, net in NIS millions	Interest margin in %
Unlinked shekels	62.4	3,429	2.85	59.2	3,036	2.69
CPI-linked shekels	10.5	92	(0.68)	10.7	117	0.04
Foreign Currency	27.1	1,048	1.89	30.1	1,072	1.81
Interest income, net and the interest margin	**100.0**	**4,569**	**2.24**	**100.0**	**4,225**	**2.13**

Footnote:

(1) According to the average balance of the interest bearing assets.

In the non-linked shekel segment, net interest income increased at a rate of 12.9%. Income from this segment constituted 75.0% of total net interest income in 2016, compared with 71.9% in 2015.

The average balance of assets in this segment increased in 2016 by 8.2% compared with 2015.

The rise in profits of this segment stemmed from the increase in the net volume of interest bearing assets, and from the rise in the interest spread due to a change in the asset mix and the reduction in the cost of resources.

The CPI-linked Shekel segment net interest income decreased in 2016 at a rate of 21.4% and its proportion of total net interest income in 2016 was 2.0%, compared with 2.8% in 2015.

The average asset balance in this segment in 2016 increased by a rate of 0.1% compared with 2015.

The decrease in profits of this segment stemmed mostly from the decrease in the interest spread of the return on assets, mainly credit to the public and an increase in the cost of resources.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income decreased by a rate of 2.2%. Its proportion of all Net profit was 22.9% in 2016, compared with 25.4% in 2015.

In 2016 the average balance of assets in this segment decreased at a rate of 7.7% compared to 2015.

The reduction in profits of the segment stemmed from the net reduction in the volume of interest bearing assets, which was offset by the rise in the interest spread on the return on the assets, principally on credit to the public, as against the cost of resources.

Non-interest financing income. In 2016, non-interest financing income increased at a rate of 107.7%.

The rise in non-interest financing income is mainly from an increase in profits, from investment in shares (see Note 3 to the financial statements), primarily as a result of selling the rights in Visa Europe. Non-interest financing income, after eliminating the aforesaid sale, amounted to NIS 394 million, a 8.5% increase, mainly as a result of the loss on investment in shares in 2015, particularly the impairment in value of shares of FIBI, of a reduction in adjustments to fair value of derivatives and from a reduction in net gains on sale and adjustment to fair value of bonds.

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

Composition of net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2016		
Interest income	5,671	1,432	1,519	1,494	1,226
Interest expenses	1,102	262	332	339	169
Interest income, net	4,569	1,170	1,187	1,155	1,057
Non-interest financing income	754	179	51	428	96
Total net financing profit	**5,323**	**1,349**	**1,238**	**1,583**	**1,153**
			2015		
Interest income	5,267	1,234	1,401	1,550	1,082
Interest expenses	1,042	191	334	455	62
Interest income, net	4,225	1,043	1,067	1,095	1,020
Non-interest financing income	363	46	30	102	185
Total net financing profit	**4,588**	**1,089**	**1,097**	**1,197**	**1,205**

Analysis of the total net financing income

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2016		
Profit from current operations	4,608	1,192	1,187	1,147	1,082
Net profit (loss) from realization and adjustment to fair value of bonds	141	(20)	43	43	75
Profit from investments in shares	444	54	3	373	14
Adjustment to fair value of derivative instruments	(10)	77	(30)	(18)	(39)
Exchange rate differences, options and other derivatives	126	33	35	37	21
Net profit on the sale of loans	14	13	--	1	--
Total net financing profit	**5,323**	**1,349**	**1,238**	**1,583**	**1,153**
			2015		
Profit from current operations	4,257	1,065	1,075	1,083	1,034
Net profit from realization and adjustment to fair value of bonds	248	47	35	24	142
Profit (loss) from investments in shares	(52)	(62)	(38)	20	28
Adjustment to fair value of derivative instruments	1	1	(22)	54	(32)
Exchange rate differences, options and other derivatives	121	36	47	5	33
Net profit on the sale of loans	13	2	--	11	--
Total net financing profit	**4,588**	**1,089**	**1,097**	**1,197**	**1,205**

Financing income, net, increased at a rate of 16.0%.

The increase in financing income is due, primarily, to an increase of NIS 496 million in profits from investment in shares (see Note 3 to the financial statements) and a rise of NIS 351 million in the income from operating activities, which were offset by a decrease of NIS 11 million in fair value adjustments of derivatives and a decrease of NIS 107 million in net profits from the realization of bonds and their adjustment to fair value.

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

Interest margin from current operations, including ALM derivatives reached in 2016 a rate of 1.13%, compared with 1.09% in 2015.

Financing income, net, increased in the fourth quarter of 2016, at a rate of 23.8%, compared with the corresponding quarter last year, and at a rate of 9.0% compared with the third quarter of 2016.

The interest margin on current operations, including ALM derivatives, reached 1.17% in the fourth quarter of 2016, compared to 1.08% in the corresponding quarter last year and compared to 1.16% in the third quarter of 2016.

Development of interest income, net, by regulatory operating segments

	For the year ended December 31, 2016	For the year ended December 31, 2015	Change in %
	In NIS millions	In NIS millions	
Domestic operations:			
Households	1,346	1,187	13.4
Private banking	45	35	28.6
Small and minute businesses	1,318	1,207	9.2
Medium businesses	292	282	3.5
Large businesses	473	415	14.0
Institutional bodies	32	29	10.3
Financial management	319	274	16.4
Total Domestic operations	**3,825**	**3,429**	**11.5**
International operations:			
Private Individuals	139	201	(30.8)
Business operations	571	529	7.9
Other	34	66	(48.5)
Total International operations	**744**	**796**	**(6.5)**
Total	**4,569**	**4,225**	**8.1**

Credit loss expenses amounted to NIS 469 million in 2016, compared with NIS 187 million in 2015, an increase of 150.8%. The credit loss expenses for 2016 were affected, mostly, from recording of expenses on a group basis, impacted mostly from an increase in credit balances, from changes in the rates of the allowance and from changes in the credit mix.

The expenses in 2015 were affected mainly, by the increase in the specific allowance, which was partly offset by a reduction in the group allowance. The increase in the specific allowance was mostly affected by an allowance in respect of one borrower, in view of deterioration in the position of his debt. The reduction in the group allowance stemmed mostly from collections, from changes in the composition of the credit and from changes in the multiyear average composition of the allowance rates.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 31 to the financial statements.

Details of the annual development in the credit loss expenses

	2016	2015

	In NIS millions	
On a specific basis	42	158
On a group basis	427	29
Total	**469**	**187**
Rate of credit loss expenses to the average balance of credit to the public	0.34%	0.15%

Details of the quarterly development in the credit loss expenses

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis	77	[2](2)	[2](24)	[2](9)	65	(14)	26	81
On a group basis	147	[2]143	[2]82	[2]55	33	99	(54)	(49)
Total	**224**	**141**	**58**	**46**	**98**	**85**	**(28)**	**32**
Rate of credit loss expenses to the average balance of credit to the public[1]:								
The rate in the quarter	0.66%	0.42%	0.18%	0.14%	0.32%	0.27%	(0.09%)	0.10%
Cumulative rate since the beginning of the year	0.34%	0.24%	0.16%	0.14%	0.15%	0.10%	0.01%	0.10%

Footnotes:
(1) On an annual basis.
(2) Reclassified due to improvement of the data in a subsidiary company.

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

Commissions amounted to NIS 2,585 million in 2016, compared with NIS 2,611 million in 2015, a decrease of 1.0%. The commissions were affected, primarily, from a decrease in commissions in ledger fees, operations in securities and in certain derivative instruments and in commissions from the distribution of financial products, which was partly offset by an increase in credit card commissions.

Distribution of commissions

	For the year ended December 31		
	2016	2015	Change
	in NIS millions		in %
Ledger fees	489	523	(6.5)
Credit cards	1,024	977	4.8
Operations in securities and in certain derivative instruments	322	332	(3.0)
Commissions from the distribution of financial products	136	147	(7.5)
Management, operational and trusteeship services for institutional bodies	-	7	(100.0)
Handling credit	136	141	(3.5)
Conversion differences	138	146	(5.5)
Foreign trade services	53	50	6.0
Net profit from credit portfolio services	11	11	-
Commissions on financing activities	181	175	3.4
Other commissions	95	102	(6.9)
Total commissions	**2,585**	**2,611**	**(1.0)**

For details regarding the recommendations of the team examining the increase of competition in the banking industry and the measures that the Banking Supervision Department has taken and is taking regarding this matter, especially in regard to commissions, see "Legislation and Supervision" hereunder.

Salaries and related expenses amounted to NIS 3,416 million in 2016, compared with NIS 3,396 million in 2015, an increase of 0.6% (for details as to the components of this item, see Note 6 to the financial statements).

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

	For the year ended December 31		
	2016	2015	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,416	3,396	0.6
Awards	(106)	(113)	
Settlement effect[(1)]	(141)	-	
Effect of the wage agreement in MDB	(3)	30	
Effect of the retirement plan	-	[(2)](24)	
Reversal of excess provisions	28	-	
Salaries and Related Expenses - Disregarding certain components	**3,194**	**3,289**	**(2.9)**

Footnotes:

(1) Accelerating the amortization of "actuarial profits and losses" following the implementation of the 2016 efficiency plan - see Note 23 J to the financial statements.

(2) Increased severance pay for employees of foreign investee company whose operation was sold.

It is noted that the above stated salaries and related expenses data does not reflect as yet the savings resulting from the 2016 efficiency plan, due to the fact that most of the employees retired at the end of the year. The reduction in expenses in 2016 stems mostly from the closing down of foreign extensions – Discount Bank Latin America and IDB (Swiss) Bank and London Branch.

Salaries expenses, excluding related expenses, amounted to NIS 2,239 million in 2016, compared with NIS 2,337 million in 2015, a decrease of 4.2%.

Quarterly developments in salaries and related expenses, detailing the effect of certain components

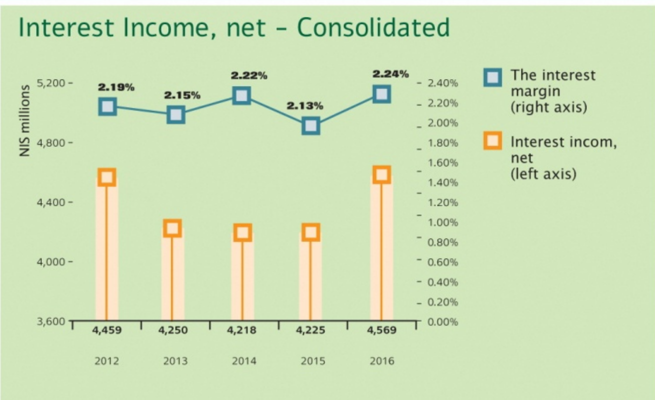
	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	866	830	861	859	873	820	832	871
Awards	(14)	(26)	(44)	(22)	(30)	(4)	(39)	(40)
Settlement effect[(1)]	(125)	(16)	-	-	-	-	-	-
Effect of the wage agreement in MDB	(3)	-	-	-	-	-	-	30
Effect of the retirement plan	-	-	-	-	[(2)](24)	-	-	-
Reversal of excess provisions	[(3)]57	-	-	-	[(2)]-	-	-	-
Salaries and Related Expenses - Disregarding certain components	**781**	**788**	**817**	**837**	**819**	**816**	**793**	**861**

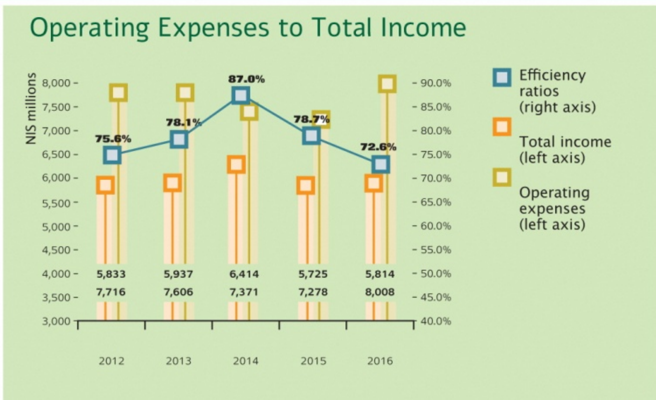
Footnotes:

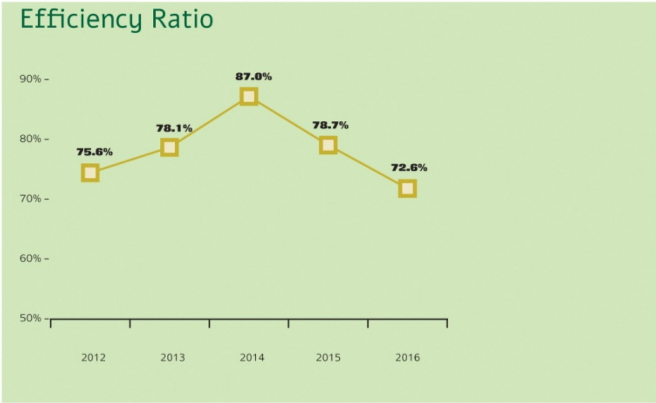
(1) Accelerating the amortization of "actuarial profits and losses" following the implementation of the 2016 efficiency plan - see Note 23 J to the financial statements.

(2) Increased severance pay for employees of foreign investee company whose operation was sold.

(3) Mostly actuarial components.







INVESTMENTS AND EXPENSES IN RESPECT OF THE INFORMATION TECHNOLOGY SYSTEM

Expenditure in respect of the information technology system includes salaries and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of salaries and related costs is based upon attribution to subunits, allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D(12) to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

Investments and expenses in respect of the information technology system

	December 31, 2016				December 31, 2015			
	Consolidated							
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system, as included in the statement of profit and loss:								
Salary and related expenses	157	100	37	294	139	105	46	290
Acquisitions or license fees not capitalized to assets	115	2	-	117	108	3	-	111
Outsourcing expenses	46	24	9	79	36	19	11	66
Depreciation expenses	251	71	9	331	286	79	9	374
Other expenses	48	48	99	195	48	41	90	179
Total	**617**	**245**	**154**	**1,016**	**617**	**247**	**156**	**1,020**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses	67	-	-	67	77	-	-	77
Outsourcing costs	118	-	-	118	97	-	-	97
Acquisition or license fee costs	48	10	-	58	44	7	-	51
Equipment, buildings and real estate costs	55	95	4	154	38	79	4	121
Total	**288**	**105**	**4**	**397**	**256**	**86**	**4**	**346**
Balances of assets in respect of the information technology system:								
Total amortized cost	736	199	168	1,103	699	165	173	1,037
Of which: in respect of salaries and related expenses	495	-	-	495	453	-	-	453

DEVELOPMENTS IN THE COMPREHENSIVE INCOME

Condensed statement of comprehensive income

	For the year ended December 31,		
	2016	2015	Change in %
	in NIS millions		
Net Profit attributed to the Bank's shareholders	905	750	20.7
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive loss, before taxes[1]	(402)	(100)	
Effect of attributed taxes	110	69	
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	(292)	(31)	
Comprehensive income, attributed to the Bank's shareholders	**613**	**719**	**14.7**

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

The other comprehensive income was mainly impacted by an actuarial loss, affected mostly by the cost of the 2016 efficiency plan (a total of approx. NIS 230 million after taxes; see Note 23 to the financial statements), by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate, and from realized gains on available-for-sale securities (see Note 10 to the financial statements).

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

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at December 31, 2016 amounted to NIS 219,577 million, compared with NIS 205,260 million at the end of 2015, an increase of 7.0%.

Developments in the principal balance sheet items

	December 31, 2016	December 31, 2015[1]	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	29,311	28,518	2.8
Securities	38,818	38,935	(0.3)
Credit to the public, net	140,760	127,216	10.6
Liabilities			
Deposits from the public	172,318	[2]157,875	9.1
Deposits from banks	5,342	3,907	36.7
Securities loaned or sold under repurchase arrangements	3,543	3,833	(7.6)
Subordinated debt notes	8,498	9,570	(11.2)
Equity attributed to the Bank's shareholders	14,512	13,288	9.2
Total equity	14,936	13,634	9.5

Footnotes:
(1) Excluding balances classified as assets and liabilities held for sale - see Note 18A to the condensed financial statements.
(2) Reclassified - see Note 1 G to the condensed financial statements.

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

CREDIT TO THE PUBLIC

General. Credit to the public, net, as at December 31, 2016, amounted to NIS 140,760 million, compared with NIS 127,216 million on December 31, 2015, an increase of 10.6%. The ratio of credit to the public, net, to total assets reached 64.1% at the end of 2016, compared with 62.0% at the end of 2015.

For details regarding credit risk management including the housing credit portfolio at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements.

Composition of credit to the public by linkage segments

Composition of net credit to the public by linkage segments

	December 31, 2016		December 31, 2015		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	96,200	68.3	83,196	65.4	15.6
CPI-linked shekels	15,243	10.8	14,854	11.7	2.6
Foreign currency and foreign currency-linked shekels	29,317	20.7	29,166	22.9	0.5
Total	**140,760**	**100.0**	**127,216**	**100.0**	**10.6**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 0.5% compared with December 31, 2015. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$150 million as compared to December 31, 2015, an increase of 2.0%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in dollar terms, increased by 11.0% as compared to December 31, 2015.

Composition of credit to the public by regulatory operating segments

Developments in the balance of net credit to the public, by regulatory operating segments

	December 31 2016	December 31 2015	
	In NIS millions		Change in %
Domestic operations:			
Households*	51,488	44,572	15.5
Private banking*	214	240	(10.8)
Small and minute businesses	34,219	30,930	10.6
Medium businesses	12,398	11,466	8.1
Large businesses	21,438	19,649	9.1
Institutional bodies	1,047	1,089	(3.9)
Total Domestic operations	**120,804**	**107,946**	**11.9**
International operations:			
Private Individuals*	1,523	1,425	6.9
Business operations	20,577	19,897	3.4
Total International operations	**22,100**	**21,322**	**3.6**
Total credit to the public	**142,904**	**129,268**	**10.5**
Credit loss expenses	(2,144)	(2,052)	4.5
Total credit to the public, net	**140,760**	**127,216**	**10.6**
*Of which - Mortgages	25,764	21,808	18.1

The increase in credit to the public in 2016 reflects the Bank's strategy regarding growth in the household and small business segment, alongside a more moderate growth in middle-market and corporate banking. Attainment of the Bank's capital adequacy goals, enabled the

Bank to accelerate the rate of growth in credit.

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 December 31, 2016 to NIS 85,707 million, an increase of NIS 10 billion compared with December 31, 2015, which reflects a growth of 13.5%.

Housing loans amounted at December 31, 2016 to NIS 25,764 million, an increase of NIS 3,956 million compared to December 31, 2015, reflecting a growth of 18.1%.

Composition of credit to the public by economic sectors

Developments of credit exposure, by major economic sectors

	December 31, 2016		December 31, 2015		
Economic Sectors	Total credit risk	Rate from total credit risk	Total credit risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	19,648	8.7	20,551	9.9	(4.4)
Construction and real estate - construction	22,535	10.0	16,480	8.0	36.7
Construction and real estate - real estate activity	19,511	8.7	21,142	10.2	(7.7)
Commerce	26,650	11.8	24,549	11.9	8.6
Financial services	21,063	9.4	19,781	9.6	6.5
Private individuals - housing loans	27,761	12.3	23,492	11.4	18.2
Private individuals - other	53,382	23.7	48,301	23.4	10.5
Other sectors	34,649	15.4	32,306	15.6	7.3
Total overall credit to the public risk	**225,199**	**100.0**	**206,602**	**100.0**	**9.0**

The data presented above indicates that in 2016, the overall risk regarding credit to the public increased by 9.0% compared with the end of 2015. This growth applied mostly to credit granted to construction and real estate - construction, private individuals – housing loans, private individuals – other and commerce. In the meantime, a decrease occurred in the overall risk regarding credit to the industry and construction and real estate - real estate activity sectors.

In past years, Discount Bank's performance in the mortgage sector has been at lower rates than the Bank's estimated share in other sectors of the retail segment, which stand at approx. 10%. The growth in the Bank's share of the mortgage market in 2016 constitutes in actual fact, "gap closure", as part of the strategic plan. The aforesaid growth was achieved while strictly adhering to underwriting procedures and looking after customers' needs

Development of problematic credit risk

For details regarding "problematic credit risk and nonperforming assets", see "Credit risk" in Chapter "C" below.

Following are details on credit to the public, as specified in Note 31 to the financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing and non-accruing) amounted at December 31, 2016 to NIS 2,943 million, compared to NIS 2,944 million at December 31, 2015.

Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2016 to NIS 2,395 million, compared to NIS 2,492 million at December 31, 2015, a decrease at a rate of 3.9%.

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

	December 31, 2016			December 31, 2015		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	19,648	657	3.3	20,551	332	1.6
Construction and real estate - construction	22,535	483	2.1	16,480	408	2.5
Construction and real estate - real estate activity	19,511	451	2.3	21,142	958	4.5
Commerce	26,650	1,105	4.1	24,549	938	3.8
Financial services	21,063	766	3.6	19,781	219	1.1
Private individuals - housing loans	27,761	328	1.2	23,492	360	1.5
Private individuals - other	53,382	441	0.8	48,301	359	0.7
Other Sectors	34,649	1,340	3.9	32,306	1,511	4.7
Total Public	**225,199**	**5,571**	**2.5**	**206,602**	**5,085**	**2.5**
Banks	9,189	93	1.0	10,735	-	-
Governments	26,575	-	-	25,176	-	-
Total	**260,963**	**5,664**	**2.2**	**242,513**	**5,085**	**2.1**

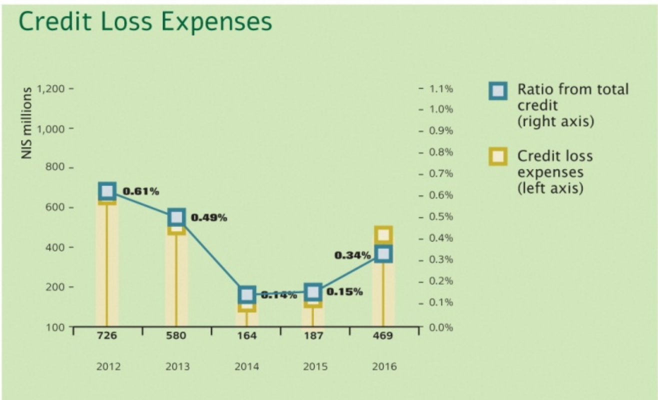
In 2016 the ratio of problematic credit to the overall credit risk increased, as compared with 2015. The rate of the problematic debt declined in 2016, mostly in the sectors of construction and real estate – real estate/construction operations – construction and private individuals – housing loans. On the other hand, the rate of problematic debt increased in the industrial, commercial and financial services sectors.

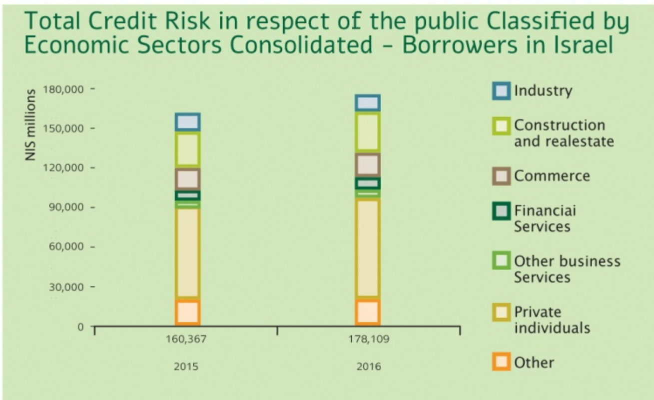
The balances of the allowance for credit losses

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 2,144 million as of December 31, 2016. The balance of this allowance constitutes 1.50% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,052 million, constituting 1.59% of the credit to the public as of December 31, 2015.

The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 389 million on December 31, 2016, compared to NIS 463 million on December 31, 2015. The reduction in the balance of the allowance compared with 2015 stemmed, mostly, from the recording of accounting write-offs.

The balance of the group allowance for credit losses. The 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 December 31, 2016 to NIS 1,587 million, compared to NIS 1,416 million as of December 31, 2015, comprising an increase in the current allowance in the amount of NIS 171 million, a rate of 12%. The increase in the balance of the allowance compared with 2015 stemmed, mostly, from the growth in the balance of credit, from changes in the rates of the allowance and from changes in the credit mix.





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 year ended December 31			
	2016		2015	
	Credit loss expense	Rate of expense (expense reversal)	Credit loss expense	Rate of expense (expense reversal)
sectors	In NIS millions	%	In NIS millions	%
Agriculture	(2)	(0.2)	1	0.1
Mining & Quarrying	(3)	(0.7)	1	0.2
Industry	35	0.3	(60)	(0.5)
Construction and real estate - construction	-	-	5	0.1
Construction and real estate - real estate activity	(103)	(0.6)	(82)	(0.5)
Electricity and water	-	-	3	0.2
Commerce	183	0.9	132	0.7
Hotels, hotel services and food	20	0.7	28	1.3
Transportation and storage	12	0.2	(21)	(0.4)
Communications and computer services	50	2.2	181	9.4
Financial services	35	0.4	(79)	(1.1)
Other business services	20	0.4	(7)	(0.2)
Public and community services	8	0.2	13	0.3
Private Individuals - Housing Loans	8	0.0	5	0.0
Private Individuals - Other	209	0.8	69	0.3
Total Public	**472**	**0.34**	**189**	**0.15**
Total Banks	(3)	-	(2)	-
Total credit loss expenses	**469**	**-**	**187**	**-**

The data shown above indicates that the increase in the credit loss expense in 2016 was focused mostly on the private individuals – other, financial services, industrial and commerce sectors. On the other hand, a reduction in expenses (expenses reversal) took place in sectors of the communications and computer services and construction and real estate - real estate activity.

Developments in credit to the public, including off-balance sheet credit risk by borrower size (consolidated)

Approx. 99.5% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 37.0% of total credit to the public as at December 31, 2016, compared with 36.0% as at December 31, 2015. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 48.3% of all credit as at December 31, 2016, compared with 49.0% as at December 31, 2015.

The 59 largest borrowers, in the credit brackets between NIS 200 million and NIS 6,164 million, were granted credit constituting 14.7% of total credit to the public as at December 31, 2016, compared with 57 borrowers that were granted credit constituting 15.0% of the total credit as at December 31, 2015.

For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 5, item 3.

For additional details, see "Credit risks" in Chapter "C" below, and also "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.

Issue of credit-linked debt notes. The Bank had issued credit-linked notes (CLN), the balance of which at December 31, 2016, amounted to approx. NIS 319 million, which is presented in the item "bonds and subordinated debt notes".

A credit-linked debt note is a financial instrument that is connected to an asset of the Bank representing a debt of a third party legal entity and which bears the credit risk inherent in that entity. The purchaser of the note accepts the risk inherent in the debt asset. The Bank commits to redeem the amount of the liability (as well as interest in accordance with the terms of the note), when the Bank's liability is contingent on the non-materialization of the risk inherent in the debt asset. The deposit shall not be refunded to the purchaser of the note if the base asset, to

which it is linked, would be in an insolvency situation, and the Bank shall only pay to the holder of the note the amounts it manages to collect in respect of the debt asset.
This product is considered collateral which is deductible in calculating the indebtedness of the customer, in accordance with Proper Conduct of Banking Business Directive No.313. It is also considered a qualified financial collateral in accordance with Sections 145 to 147 of Proper Conduct of Banking Business Directive No.203.

SECURITIES

General. Securities in the nostro portfolio amounted to NIS 38,818 million as at December 31, 2016, compared with NIS 38,935 million at the end of 2015, a decrease of 0.3%. It is clarified that the "nostro" portfolio to the Discount Group as of December 31, 2016, did not include any security the investment in which comprised 5% or more of the value of the total portfolio, except for security of the "government variable 520" type, and security of the "government variable 1121" type, which amounted to 8.0% and 7.2% of the total portfolio, respectively.
As of December 31, 2016, some 62% 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 breakup of the investment in government bonds according to principal governments, see "Appendices to the annual report" – Appendix 5, item 5.
Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.
The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.
The First International Bank of Israel Ltd. ("FIBI"). On February 1, 2016, the Bank sold the balance of the shares in FIBI, comprising approx. 9.28% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 44.70 per share. Following the said sale, the loss recorded as a capital reserve in the December 31, 2015 financial statements has been realized and recognized in the statement of income, in the net amount of NIS 53 million, which reflects an impairment in value of the share until December 31, 2015. An additional loss on the sale in the amount of NIS 12 million was recorded in the financial statements as of March 31, 2016. Completion of this move constitutes the Bank's attainment of the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale.

Composition of the securities portfolio by linkage segments

Composition of the securities portfolio by linkage segments

	December 31, 2016	December 31, 2015	Rate of change in %
	In NIS millions		
Non-linked shekels	16,705	16,776	(0.4)
CPI-linked shekels	4,607	4,048	13.8
Foreign currency and foreign currency-linked shekels	16,530	16,808	(1.7)
Shares - non-monetary items	976	1,303	(25.1)
Total	**38,818**	**38,935**	**(0.3)**

Securities in foreign currency and in Israeli currency linked foreign currency decreased by 1.7% compared with December 31, 2015. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency decreased by US$8 million, a decrease of 0.2% as compared with December 31, 2015. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, increased by 0.3% as compared with December 31, 2015.

Composition of the securities portfolio according to portfolio classification

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

Composition of investments in securities portfolio according to portfolio classification

	December 31 ,2016			December 31 ,2015		
	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	6,267	6,559	6,267	7,003	7,409	7,003
Available for sale	28,671	28,753	28,753	27,452	27,674	27,674
Trading	2,827	2,822	2,822	2,962	2,955	2,955
Shares						
Available for sale	957	963	963	1,294	1,296	1,296
Trading	13	13	13	8	7	7
Total Securities	**38,735**	**39,110**	**38,818**	**38,719**	**39,341**	**38,935**

Corporate bonds. Discount Group's available for sale securities portfolio as of December 31, 2016, includes investments in corporate bonds in the amount of NIS 3,588 million (an amount of NIS 410 million is held by IDB New York, an amount of NIS 205 million was held by MDB, and an amount of NIS 2,973 million, directly by the Bank), compared with NIS 3,892 million as of December 31, 2015 (an amount of NIS 414 million was held at IDB New York, an amount of NIS 511 million held by MDB, an amount of NIS 100 million held by IDB (Swiss) Bank and an amount of NIS 2,867 million is held directly by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 12 to the financial statements.

Data by market segments. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 4, item 5.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 12 C to the financial statements.

Investments in mortgage and asset Backed securities

General. Discount Group's securities portfolio as of December 31, 2016 includes investment in mortgage backed securities in the amount of US$2,217 million (NIS 8,523 million), which are held by IDB New York, compared to an amount of US$2,211 million as at December 31, 2015 (NIS 8,627 million), an increase of 0.3%. Approx. 95% of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA+ rating in the U.S. (the lowering of the rating of the said bonds from "AAA", stems from the lowering of the credit rating of the United States). The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2016, the portfolio of mortgage and assets backed securities included unrealized net losses of US$18 million (NIS 70 million), compared with US$12 million (NIS 48 million) as of December 31, 2015.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

The market for GSE Mortgage Backed Securities (MBS) has always operated under the assumption that these securities had the implicit guarantee of the U.S. Government, as such the actions taken by the Federal Government, placing the GSE into conservatorship were welcomed by the market.

These measures adds to market stability by providing additional security to GSE debt holders - senior and subordinated and adds to mortgages affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

All of the GSE-MBS held by IDB New York are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

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

CLO. IDB New-York holds secured bonds of the CLO class in a total amount of US$100 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 12 to the 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 below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2016, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As at December 31, 2016, unrealized accumulated losses in respect of available-for sale shares amounted to NIS 1 million, similar to December 31, 2015.

As of December 31, 2016, and December 31, 2015, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 78 million and NIS 64 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 12 D to the financial statements.

It is noted that until March 31, 2016, securities agreeing with the minimum thresholds for other than temporary impairment ("OTTI"), had been defined concurrently as credit under special mention. As from April 1, 2016, the processes for the definition of securities as credit under special mention, including the minimum thresholds, were adjusted to those being used generally in relation to problematic debts.

CUSTOMER ASSETS

Deposits from the public as at December 31, 2016, amounted to NIS 172,318 million, compared with NIS 157,875 million at the end of 2015, an increase of 9.1%.

Composition of deposits from the public by linkage segments

	December 31, 2016		December 31, 2015		
	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	108,345	62.9	95,088	60.2	13.9
CPI-linked shekels	5,360	3.1	6,473	4.1	(17.2)
Foreign currency and foreign currency-linked shekels	58,613	34.0	(1)56,314	35.7	4.1
Total	**172,318**	**100.0**	**157,875**	**100.0**	**9.1**

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

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 4.1%, compared with December 31, 2015. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$812 million, an increase of 5.6% compared with December 31, 2015. 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 by 9.7%, as compared with December 31, 2015.

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

	December 31 2016	December 31 2015	Change in %
	In NIS millions		
Domestic operations:			
Households	67,496	62,916	7.3
Private banking	16,221	16,185	0.2
Small and minute businesses	27,729	25,055	10.7
Medium businesses	6,982	6,159	13.4
Large businesses	14,285	10,203	40.0
Institutional bodies	13,185	11,735	12.4
Total Domestic operations	**145,898**	**132,253**	**10.3**
International operations:			
Private Individuals	10,670	10,502	1.6
Business operations	15,750	15,120	4.2
Total International operations	**26,420**	**(1)25,622**	**3.1**
Total deposits from the public	**172,318**	**157,875**	**9.1**

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

The ratio of total credit to the public, net, to deposits from the public was 81.7% as at December 31, 2016, compared with 80.6% at the end of 2015.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2016, to NIS 7,695 million.

Securities held for customers. On December 31, 2016, the balance of the securities held for customers at the Bank amounted to approx. NIS 180.95 billion, including approx. NIS 4.37 billion of non-marketable securities, compared to approx. NIS 164.4 billion as at December 31, 2015, including approx. NIS 4.6 billion of non-marketable securities, an increase of 10.1%. For details as to income from security activities, see Note 4 to the financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2016, amounted to NIS 10.2 billion, compared with NIS 10.3 million in December 31, 2015, a decrease of 1.5%.

Investment portfolio management. On December 31, 2016, Tafnit was managing investment portfolios, overall valued at approx. NIS 6,515 million, as compared to approx. NIS 6,637 million as at December 31, 2015, a decrease of 1.8%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2016, amounting to NIS 13.9 billion, compared with NIS 13.7 as of December 31, 2015.

Development of Total Assets - Consolidated

Development of Credit to the Public and Deposits from the Public - Consolidated

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 common equity tier 1 ratio 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 (one year) and the long-term (termination of the transitional instructions) 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 40% was deducted on January 1, 2015, an additional amount was deducted on January 1, 2016, comprising 20%, and the balance will be deducted in equal parts in the years 2017-2018.

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) 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 8 million have been amortized to December 31, 2016. For further details regarding the Bank's efficiency plan, see above "Efficiency of the banking industry – 2016 Efficiency plan" and Note 23 J to the financial statements.

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 25 1 B to the financial statements.

The effect of adoption of the Directive on ratio of common equity tier 1 - short-term effect. The transitional instructions stated in the Directive determine a gradual adoption of the more stringent requirements included therein. The Bank estimates that had the guidelines of the Directive been implemented as of December 31, 2016, on the basis of the data for that date and the transitional instructions as would apply on

December 31, 2017, including the impact of the implementation of the instruction regarding employee rights (see Note 1 C 5 (1)), including the relief approved by the Supervisor of Banks with respect to the 2016 efficiency plan, but without the consideration of profits accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.1%.

The effect of adoption of the Directive on ratio of common equity tier 1 - long-term effect. The Bank estimates that had the guidelines included in the Directive been implemented in full as of December 31, 2016, on the basis of the data for this date, and without taking into account the provisional instructions including the rebates mentioned above (a situation equal to the situation that will prevail in 2018, at the end of five years since the date of initial implementation of the directive, including the effect of the directive regarding employee rights, though without taking into consideration profits that will accumulate during the period), the ratio of common equity tier 1 would have declined by 0.3%.

It should be emphasized that the data presented above, as an estimate of the short and long-term effect, reflect only an assessment. Moreover, the said estimates assume a situation of static existence of the data as of December 31, 2016, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as a result of the accumulation of current profits and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result for a short and long-term 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 policy of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

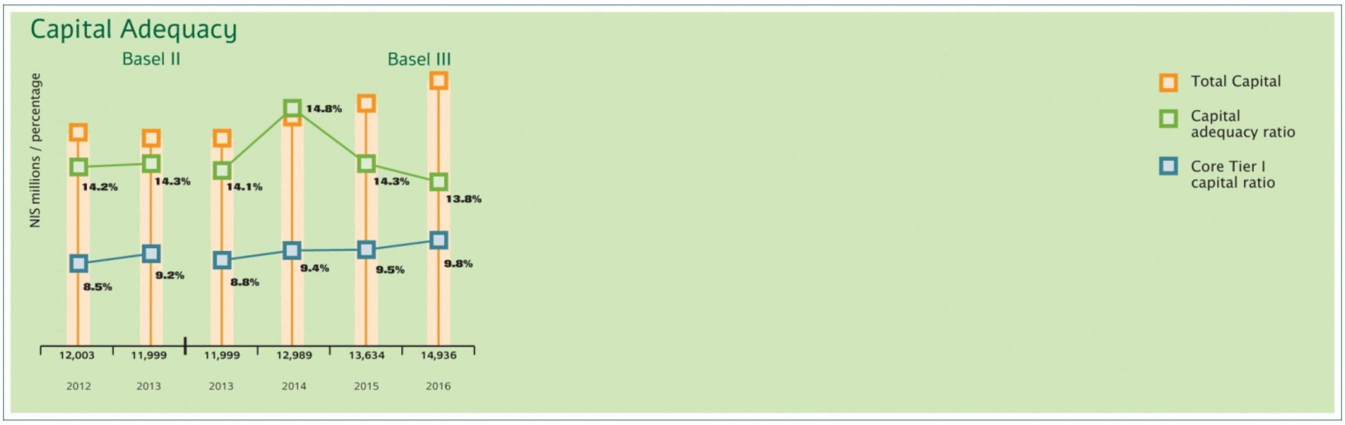
For further details, see "Basel III" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks ", available for viewing on the Internet.

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 and according to a system stress test.

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. The document is available for perusal on the Bank`s website together with the Bank's 2016 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..



COMPONENTS OF CAPITAL

Total capital as at December 31, 2016, amounted to NIS 14,936 million, compared with NIS 13,634 million at December 31, 2015, an increase of 9.5%. The increase stems, mostly, from the raising of capital in September 2016 and the profit for the period.

Equity attributed to the Bank's shareholders as at December 31, 2016, amounted to NIS 14,512 million, compared with NIS 13,288 million at December 31, 2015, an increase of 9.2%.

The change in equity attributed to the Bank's shareholders in 2016 was impacted mostly by the raising of capital in September 2016, by the net earnings for 2016, as well as, inter alia, by a decrease of NIS 76 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect and a decrease of NIS 44 million in financial statements transactions adjustments and from the net actuarial loss in the amount of NIS 177 million.

The ratio of total capital, to total assets as at December 31, 2016, stood at 6.8%, compared with 6.6% as of December 31, 2015.

COMPONENTS OF THE REGULATORY CAPITAL AS OF DECEMBER 31, 2016

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

Ratio of common equity tier 1 on December 31, 2016, amounted to 9.8%, as compared with 9.5% on December 31, 2015.

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

Components of the regulatory capital as of December 31, 2016

	December 31	
	2016	2015
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	15,036	13,549
Additional tier 1 capital after deductions	1,068	1,247
Tier 1 capital	16,104	14,796
Tier 2 capital	5,020	5,610
Total capital	**21,124**	**20,406**
2. Weighted risk assets balance		
Credit risk	(2)137,393	126,907
Market risk	2,483	2,435
CVA risk	942	788
Operational risk	12,072	12,330
Total weighted risk assets balance	**152,890**	**142,460**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	9.8	9.5
Ratio of total capital to risk assets	13.8	14.3
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1	(1)9.2	(1)9.1
Total capital ratio	(1)12.7	(1)12.6

Footnotes:

(1) With an addition of 0.15% (December 31, 2015: 0.06%), in accordance with the additional capital requirements with respect to housing loans - see Note 25 (b) to the financial statements.

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

Raising of resources

Issue of capital. For details regarding the issue of shares and option warrants in September 2016, see Note 24 D to the financial statements.

Issuances of tier 2 capital. No Tier 2 capital was raised during 2015-2016. For details regarding the CoCo bonds issue at the beginning of January 2017, see Note 25 N to the financial statements.

Subtraction of regulatory capital instruments in 2016. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. 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 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2017, in accordance with the transitional provisions, amount to NIS 727 million (in accordance with the Basel II instructions an amount of NIS 549 million would have been deducted).

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

DIVIDENDS DISTRIBUTION

The Bank has not distributed dividends to its shareholders since 1996, excluding the distribution of dividend in October 2008 in the amount of NIS 250 million, and except on the Bank's cumulative preference shares, in an annual amount of £24 thousand (see Note 24 F (3) to the financial statements), which the Bank distributes each year. The main limitation affecting the Bank's ability to distribute a dividend in the recent years was the capital base limitation.

For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 F (2) to the financial statements.

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.

The Bank is studying the possibility of adopting a dividend distribution policy during 2017, while considering adherence to the work plan and to the capital goal alongside the future growth potential.

ADDITIONAL DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL

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

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATION - PRINCIPAL QUANTITATIVE DATA AND MAIN DEVELOPMENTS

GENERAL

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

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

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements, p. 249-263 below.
A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".
Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 to the financial statements.
Allocation of indirect expenses. Indirect expenses are allocated to the different segments in accordance with the model, as detailed in Note 29 Item 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

ADMINISTRATIVE STRUCTURE

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.
The Bank's business operations in 2016 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.
The Banking Division conducts business with households including VIP customers as well as small businesses and medium corporations (middle market), customers of direct banking and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in branches and investment centers and for the mortgage activity.
The Corporate Division is responsible for conducting business with large business corporations as well as building (closed real estate projects) and infrastructure corporations, major participants in the capital market and customers engaged in the diamond sector. In addition, syndication and sale of credit risk unit and the financing of complex foreign trade transactions unit operate as part of the Division. Service to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch. Furthermore, the Foreign Trade department, providing foreign trade services to all Bank customers, is also subject to the Division.
The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, the Technologies and Operations Division is responsible for the online channels and the Planning, Strategy and Finance Division is responsible for pension advisory services.

HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS)

GENERAL

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 200 branches located all over the country, in addition to a variety of direct channels. The customers are classified into a number of customer populations according to their age, financial wealth and additional parameters.

SCALE OF OPERATIONS AND NET PROFIT OF THE SEGMENT

The segment's loss in 2016 amounted to NIS 396 million, compared to a loss in an amount of NIS 301 million in 2015. The loss for 2016, was effected, inter alia, from a settlement (see Note 23 E to the financial statements) in an amount of NIS 52 million, and from changes in the tax rate (see Note 8 K to the financial statements) in an amount of NIS 55 million.
The credit loss expenses in this segment amounted to NIS 216 million in 2016, compared to NIS 75 million in 2015, an increase of 188%. The increase in expenses stemmed from the increase in the group allowance for credit loss, mainly due to the increase in credit balances, from a reduction in collections (see "Legislation and Supervision" hereunder) and from the increase in write-offs. The reduction in collection stemmed, inter alia, from lenient legislation regarding debtors, and from certain limitations adopted by the Bank in this respect.

Principal data regarding the Household segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	2,629	2,474
Credit loss expenses	216	75
Total Operating and other expenses	2,871	2,766
Loss Attributed to the bank's shareholders	(396)	(301)

DEVELOPMENTS IN THE SEGMENT

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

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

  The first part of integrating the change process had been completed at 75 of the Bank's branches by the end of 2016. The integration process includes a comprehensive training process for branch employees with respect to the transfer of the operational activity from the branch to the banking service center and to the use of mechanical tools that make work processes more efficient. Furthermore, within the framework of the integration process, emphasis is placed on increasing initiative and sales based on costumer-needs, with this also being conducted by means of computerized training systems;
- The Telebank focuses on improvement of response time to all customers, introducing value offers and sales into incoming calls.

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 PROFIT OF THE SEGMENT

The segment's loss in 2016 amounted to NIS 8 million, similar to 2015. The loss for 2016, was effected, inter alia, from a settlement (see Note 23 E to the financial statements) in an amount of NIS 3 million, and from changes in the tax rate (see Note 8 K to the financial statements) in an amount of NIS 2 million.

Principal data regarding the Private banking segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	112	109
Credit loss expenses	1	1
Total Operating and other expenses	120	119
Loss Attributed to the bank's shareholders	(8)	(8)

DEVELOPMENTS IN THE SEGMENT

In 2016, the Bank continued to intensify the activity among private banking customers.
The private banking field focused on attracting new customers, by means of four service centers in Herzliyah, Haifa, Jerusalem and Tel Aviv, as well as on intensifying the activity with existing customers and continuing the attachment of existing Bank customers, who fall within the private banking customer profile. Concurrently, current processes continued to be conducted by the department, concerning the transfer of customers not having a private banking profile to more appropriate other service functions at the Bank.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. As part of the service concept, focused meetings were held also in this year with customers of the centers, on general subjects and current events, with the participation of the Bank's senior Management were conducted.
Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the exact implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks.
In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.
For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.
For additional details regarding the private banking segment (Domestic operations), including details as to strategic focuses and service to customers, 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 PROFIT OF SEGMENT

Net profit of the segment in 2016 amounted to NIS 263 million, compared with NIS 286 million in 2015, a decrease of 8.0%. The net profit of the segment was affected, inter alia, by its share (amounting to NIS 45 million) in the expense made by ICC in respect of the arrangement replacing criminal proceedings (see Note 36 E to the financial statements), from a settlement in an amount of NIS 23 million (see Note 23 E to the financial statements), and from changes in the tax rate in an amount of NIS 31 million (see Note 8 K to the financial statements).
The credit loss expenses in this segment amounted to NIS 90 million in 2016, compared to NIS 52 million in 2015, an increase of 73.1%.

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

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	1,922	1,805
Credit loss expenses	90	52
Total Operating and other expenses	1,364	1,253
Net Profit Attributed to the bank's shareholders	263	286

For additional details regarding the Small and minute businesses segment (Domestic operations), including details as to goals and business strategy, and service to customers of this segment, 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 PROFIT OF THE SEGMENT

Net profit of the segment in 2016 amounted to NIS 57 million, compared with NIS 39 million in 2015, an increase of 46.2%. The net profit of the segment was affected, inter alia, by its share (amounting to NIS 10 million) in the expense made by ICC in respect of the arrangement replacing criminal proceedings (see Note 36 E to the financial statements), from a settlement in an amount of NIS 5 million (see Note 23 E to the financial statements), and from changes in the tax rate in an amount of NIS 5 million (see Note 8 K to the financial statements).
The credit loss expenses amounted to NIS 46 million in 2016, compared to NIS 84 million in 2015, a decrease of 45.2%.

Principal data regarding the Medium businesses segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	439	418
Credit loss expenses	46	84
Total Operating and other expenses	289	261
Net Profit Attributed to the bank's shareholders	57	39

GOALS AND POINTS OF EMPHASIS FOR 2017

- In the light of the strong points and uniqueness of the Bank's business centers, the segment serves as one of the strategic focuses of the Bank. In this respect, the segment has been set a challenging goal of growth in the volume of credit while focusing on quality customers, existing and new, with a reasonable risk level and with risk adjusted profitability appropriate to the Bank;
- Expanding the activity with customers operating in economic sectors that are preferred for growth in accordance with the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuing the improvement of professionalism, availability and the processes of credit risk management and amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition;
- The integration of advanced credit risk management models with the aim of improving the pricing of the marginal transaction and adjustment of the financing spread to the nature of the transaction and to the risk to the Bank, while improving the ability to compete for quality customers.

For additional details regarding the Medium businesses segment (Domestic operations), including details as to service to customers of this segment, 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 PROFIT OF THE SEGMENT

Net profit of the segment in 2016 amounted to NIS 264 million, compared with NIS 261 million in 2015, an increase of 1.1%. The net profit of the segment was affected, inter alia, by its share (amounting to NIS 30 million) in the expense made by ICC in respect of the arrangement replacing criminal proceedings (see Note 36 E to the financial statements), from a settlement in an amount of NIS 4 million (see Note 23 E to the financial statements), and from changes in the tax rate in an amount of NIS 6 million (see Note 8 K to the financial statements).

The credit loss expenses in this segment amounted to an expense reversal of NIS 40 million in 2016, similar to 2015.

Principal data regarding the Large businesses segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	694	631
Credit loss expenses reversal	(40)	(40)
Total Operating and other expenses	306	246
Net Profit Attributed to the bank's shareholders	264	261

DEVELOPMENTS IN THE SEGMENT

Purchase of a policy insuring against credit risk related to Sales Act guarantees and execution guarantees. In May 2016, MDB completed the purchase of a policy insuring against credit risk related to Sales Act guarantees and execution guarantees issued within the framework of "closed project" financing, and which relates to a credit risk portfolio in the amount of NIS 2 billion.

In June 2016, the Bank completed the purchase of a policy insuring against credit risks on certain performance guarantees, which were granted not within the framework of "closed project" financing and which relate to a credit risks portfolio in the amount of NIS 3.3 billion.

These acquisitions are added to the acquisition of a policy insuring against credit risks on Sales Law guarantees, which are offered within the framework of "closed project" financing, whose purchase was completed in August 2015, which relate to a credit risks portfolio in the amount of NIS 7.8 billion. (All the amounts mentioned in this section above are in terms of the exposure as of December 31, 2016).

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

For additional details regarding the Large businesses segment (domestic operations), including details as to developments in markets of this segment, goals and business strategy, foreign trade activity and service to customers of this segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS)

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

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

The segment's loss in 2016 amounted to NIS 37 million, compared with a loss of NIS 18 million in 2015, an increase of 105.6%. The increase in the loss for 2016, was effected, inter alia, from a settlement in an amount of NIS 1 million (see Note 23 E to the financial statements), and from changes in the tax rate in an amount of NIS 2 million (see Note 8 K to the financial statements).

The credit loss expenses in this segment amounted to NIS 30 million in 2016, compared NIS 5 million in 2015. The rise in expense stemmed from one particular customer.

Principal data regarding the Institutional bodies segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	49	41
Credit loss expenses	30	5
Total Operating and other expenses	75	62
Loss Attributed to the bank's shareholders	(37)	(18)

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 PROFIT OF THE SEGMENT

The segment's net profit in 2016 amounted to NIS 570 million, compared to NIS 342 million in 2015. The increase in net profit in 2016, was effected, inter alia, from the gain from sale of rights in VISA Europe (see Note 36 F to the financial statements), from a settlement in an amount of NIS 2 million (see Note 23 E to the financial statements), and from changes in the tax rate in an amount of NIS 8 million (see Note 8 K to the financial statements).

Principal data regarding the financial management segment (Domestic operations)

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	1,194	743
Total Operating and other expenses	255	238
Net Profit Attributed to the bank's shareholders	570	342

MAIN DEVELOPMENTS IN THE SEGMENT

Negative interest environment. In the second quarter, following the transition to a negative interest environment, as regards the Swiss franc, Euro and Yen currencies, the Bank has informed its institutional customers of the charging of interest on credit current account balances in these currencies. The Bank would continue to consider the steps to be taken in accordance with development in interest rates in Israel and the world over.

"Nostro" portfolio. For details regarding the Bank's "Nostro" portfolio and developments therein, see above "Securities" under "Development of assets and liabilities", Appendix no.4 to the Report of the Board of Directors and Note 12 to the financial statements.

For additional details regarding the financial management segment (Domestic operations), including details regarding non-financial companies activity, details as to the dealing room activity, asset and liability management and Global Treasury, 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 2016 amounted to NIS 192 million, compared to NIS 149 million in 2015, an increase of 28.9%.
The credit loss expenses in this segment in 2016 amounted to NIS 126 million, compared to NIS 10 million in 2015.

Principal data regarding the International operations segment

	For the year ended December 31,	
	2016	2015
	in NIS millions	
Total income	969	1,057
Credit loss expenses	126	10
Total Operating and other expenses	534	780
Net Profit Attributed to the bank's shareholders	192	149

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

DEVELOPMENTS IN THE SEGMENT

IDB (Swiss) Bank – in liquidation. On February 26, 2016, the transaction for the sale of the operations of customers of IDB (Swiss) Bank, as defined in the agreement, was concluded. For additional details see Note 15 E to the financial statements.
Following the conclusion of the transaction, as stated, a Liquidator has been appointed for IDB (Swiss) Bank by the shareholders, and the name of the corporation has been changed to "IDB (Swiss) Bank – in liquidation". With the fulfillment of conditions precedent, the confirmation by the Swiss Financial Market Supervisory Authority (FINMA) for the termination of supervision over IDB (Swiss) Bank – in liquidation was received. As from December 20, 2016 IDB (Swiss) Bank – in liquidation discontinued all banking activities and the Bank acts to liquidate the corporation.
The closing down of foreign extensions. The Cayman branch of IDB New York was closed down in January 2016. The London branch of the Bank was closed down in February 2016. The Central Bank of Argentina accepted in June 2016 the request of the Bank for the closing down of its representative office in Argentina, which was submitted already in 2012 (in practice, this representative office is inactive for several years). The representative office of IDB New York in Mexico was closed down in July 2016. The representative office of IDB New York in Peru was closed down in January 2017.

MAIN INVESTEE COMPANIES

GENERAL

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2016, amounted to NIS 8.7 billion, compared with NIS 8.2 billion on December 31, 2015, an increase of 5.8%.

Distribution of Net profit by the Group's structure

	Contribution to the Group's income			
	Before tax	Net profit	Before tax	Net profit
	2016		2015	
	In NIS millions			
Banking Activity:				
Commercial banks:				
In Israel - the Bank (including branches overseas)	535	240	414	207
Mercantile Discount Bank	337	193	344	210
Overseas - Bank offices	310	192	266	149
Other Activities:				
Israel Credit Cards	442	186	241	95
Discount Capital	82	78	89	81
Other financial services	19	16	12	8
Net profit	**1,725**	**905**	**1,366**	**750**

At the end of 2016, 18.91% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and 16.30% were assets of the overseas consolidated company. The contribution to the Net profit by the consolidated companies in Israel amounted to NIS 467 million in 2016 (NIS 389 million in 2015). The contribution to the Net profit by overseas consolidated companies amounted to NIS 192 million in 2016 (NIS 149 million in 2015), and the contribution to the Net profit by affiliated companies amounted to NIS 6 million in 2016 (NIS 6 million in 2015).

The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 665 million in 2016, compared with NIS 543 million in 2015, an increase of 22.2%.

Following are the main developments in principal investee companies.

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York), which is the largest Israeli bank operating overseas.

Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB New York may not be sold by Bancorp unless the Bank has given its consent. The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

Discount Bancorp, Inc. – principal data

	In US$ millions		
Balance sheet items	December 31, 2016	December 31, 2015	Change in %
Total assets	9,272	9,322	(0.5)
Total credit	5,654	5,397	4.8
Total deposits	7,329	7,301	0.4
Total equity	891	840	6.1
Ratio of total capital to risk assets	14.2%	13.9%	
Profit and loss statement items for the year ended December 31	2016	2015	
Net profit attributed to the shareholders	60	60	-
Return on equity	6.9%	7.3%	

Revenues from the core activity of IDB New York and the operating income have grown significantly compared to 2015. On he other hand, a growth in credit loss expenses was recorded in 2016, stemming from the expense in respect of several credit portfolios, while maintaining the quality of the credit portfolio.

For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 12 to the financial statements hereunder.

Distribution of dividend. In 2016, Bancorp distributed dividend to Discount Bank in a total amount of US$15 million (2015 – US$15 million). In March 2017, Bancorp distributed to Discount Bank a dividend in the amount of US$15 million.

The sale of operations in DBLA. For details, see Note 15 D to the financial statements.

The contribution of Bancorp to the Bank's net results reached a profit of NIS 193 million in 2016 (after deducting a provision for taxes of NIS 39 million), compared with NIS 190 million in 2015 (after deducting a provision for taxes of NIS 28 million).

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

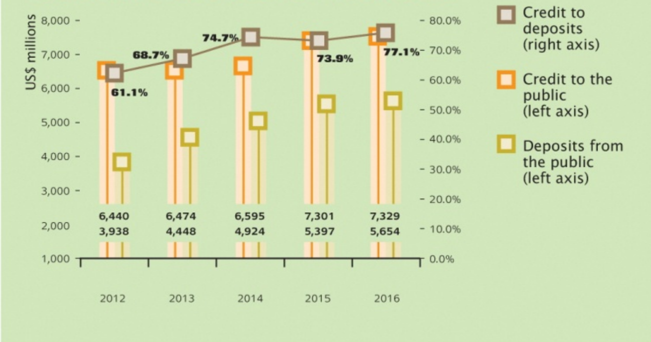
The Bank's Management has examined the materiality of the findings and has reached the opinion that they are immaterial in relation to the consolidated financial statements, and that therefore, there was no material weakness at the Group level.

IDB New York has conducted a work plan for the treatment of the material weakness. The plan included a revised definition of the work procedure and the addition of controls, examination of the process from "one end to another" by the internal audit and an independent review by the SOX unit. All these led to the removal of the material weakness from the 2016 annual report. The internal control layout over financial reporting at IDB New York as of December 31, 2016, has been audited by the independent auditors of IDB New York and found to be effective.

Change of President and CEO. At a meeting of the Board of Directors of IDB New York, held on December 13, 2016, Mr. Ehud Arnon, President and CEO of IDB New York, informed of his decision to terminate his office. On December 26, 2016 the Bank's Board of Directors decided to appoint Mr. Uri Levin, Executive Senior Vice President, to the office of President an CEO and also Director of Discount Bancorp Inc. and recommended to the Board of Directors of Bancorp the appointment of Mr. Levin to the office of President and CEO of IDB New York. The appointment shall take effect on May 1, 2017.

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).

Bancorp - Net Income and Return on Equity



Bancorp - Development of Credit to the Public and Deposits from the Public

MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank.
At the end of 2016, MDB operated through 78 branches (79 branches at the end of 2015).

Mercantile Discount Bank Ltd. – principal data

	In NIS millions		
Balance sheet items	December 31, 2016	December 31, 2015	Change in %
Total assets	32,164	30,076	6.9
Total credit to the public, net	22,001	20,417	7.8
Total deposits from the public	27,199	25,388	7.1
Total equity	2,244	2,103	6.7
Ratio of total capital to risk assets	13.8%	14.0%	
Profit and loss statement items for the year ended December 31	2016	2015	
Net profit attributed to the shareholders	193	210	(8.1)
Return on equity	8.9%	10.4%	

The ratio of capital to risk assets. On November 17, 2015, the Board of Directors of MDB resolved that the total capital ratio of this bank shall not fall below 12.7%. The Board of Directors of MDB resolved on November 17, 2014, that the Common Equity Tier 1 ratio shall not fall below 9.2%.

The principal factors affecting the business results. The profit in 2016 was affected, inter alia, from an increase of NIS 62 million in interest income; from a decrease of NIS 31 million in credit loss expenses; from a decrease of NIS 24 million in other income, in respect of capital gains recognized during 2015 (see below "Fixed assets and installations"); and from an increase of NIS 69 million in operating and other expenses which resulted, mainly, from an increase in expenses for Salaries and related expenses, at a rate of 12.2%, stemming from both the nonrecurring implications of the wage agreement signed in the corresponding period last year, and the implications of the implementation of the efficiency plan in 2016 (see "Human resources" below).

Distribution of dividend. During 2015-2016 Mercantile Discount Bank did not distribute dividend.

The strategic plan. The Board of Directors of the Mercantile Discount Bank approved in 2015 a strategic plan for the years 2016-2020. The program contains two main lines of action: the one – expansion of retail operations (households and small businesses), within the framework of which, Mercantile Discount Bank is intended to focus on specific sections of the population, in respect of which this bank has many years of experience in the granting of banking services matching their unique needs. The other – streamlining operations by means of strict management of operating expenses and improvement in income structure.

2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic plan, prepared by Management of this bank with the assistance of external consultants. The plan is intended to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services.

Major projects implementation. Execution of the said strategic plan involves the implementation of structural changes and changes in work processes, which are integrated at the Mercantile Discount Bank within the framework of projects, including:

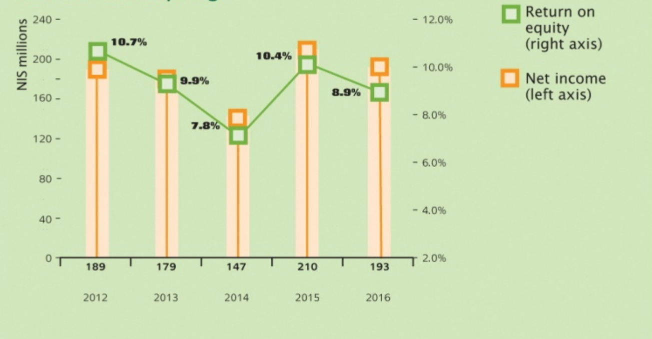
- Expanding the operations of the "back-office operating unit" – within the framework of which, certain operating activities are removed from the branches to back-office operating centers, for the purpose of increasing the resources of the branches available for customer service.
- Improvement of the computer infrastructure – including infrastructure relating to the development of activity in the retail segment, such as: enlarging the channels used for granting banking services, improving the technological infrastructure enabling the conduct of operations without the physical signature by the customer, upgrading and increasing the number of automatic devices at the branches and the development of advanced digital applications, which enable customers to obtain available information and carry-out banking operations by means of use of mobile communication devices.

"Branch method" – The project was completed during 2016 at all MDB branches, and the scope of operations of the back-office unit was enlarged by shifting additional work processes from the branches to this unit.

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

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.

Mercantile - Net Income and Return on Equity



Mercantile - Development of Credit to the Public and Deposits from the Public

ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2016, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First international Bank held the balance of the rights in ICC.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

Israel Credit Cards Ltd. – principal data

	In NIS millions		
Balance sheet items	December 31, 2016	December 31, 2015	Change in %
Total assets	12,416	10,991	13.0
Total equity	1,504	1,225	22.8
Ratio of total capital to risk assets	15.8%	15.4%	
Profit and loss statement items for the year ended December 31	**2016**	**2015**	
Total Income	1,622	1,240	30.8
Net profit attributed to the shareholders	292	149	96.0
The contribution to the Bank's business results	186	95	95.8
Return on equity	21.3%	12.6%	
Profit and loss statement items disregarding gains on the sale of rights in Visa Europe and an expense in respect of an arrangement replacing criminal proceedings(1) – for the year	**2016**	**2015**	
Net profit attributed to the shareholders, disregarding as aforesaid	195	149	31.5
The contribution to the Bank's business results, disregarding as aforesaid	124	95	30.5
Return on equity, disregarding as aforesaid	14.2%	12.6%	

Footnote:
(1) See Note 36 E and F to the financial statements.

The business results of ICC for the reported period were mostly affected from an increase in income from credit card transactions (NIS 54 million) and from an increase in interest income, net (NIS 72 million), and a rise in non-interest financing income (NIS 256 million), mostly stemming from income in the amount of NIS 263 million in respect of the share of ICC in the VISA Europe transaction, while on the other hand, and from the rise in credit loss expenses (NIS 40 million), an increase in operating expenses (NIS 92 million), a provision of a nonrecurring nature in respect of an arrangement in lieu of criminal proceedings and by an increase in sales and marketing expenses (NIS 32 million).

The ratio of capital to risk assets. On February 27, 2011, the Board of Directors of ICC adopted a policy according to which, the total capital ratio to risk assets of the company shall not fall below a rate of 15%.

Distribution of dividend. During 2015-2016, ICC did not distribute dividends. The Supervisor of Banks informed ICC in December 2014, that a distribution of dividends shall be made with the prior coordination with the Supervisor. In March 2017, ICC distributed a dividend in the amount of NIS 30 million (the Bank's share amounting to NIS 21.5 million) (part of the Bank – NIS 21.5 million).

Adoption of the strategic plan for 2015-2017. The Board of Directors of ICC approved on December 10, 2014, the strategic plan for the years 2015-2017. The plan is based on two central layers – growth in the credit field and the reduction in costs, alongside preservation of the competitive capabilities in the realm of payments.

Implementation of the plan would lead to an operational model that would support attaining the goals of the plan, including: relying on advanced digital and technological platforms in order to support the realization of the business moves, educated risk management within the framework of the risk appetite as well as the development of human capital and organizational culture that would support the strategy.

The Management of ICC estimates that the implementation of the plan would lead to a growth of profits of the ICC group and would enable it to face in an optimal manner the challenges of the financial market in Israel in the coming years.

Integration of the strategic plan. For the purpose of integrating the strategic plan, ICC established teams from various divisions, for promoting and implementing plans leading to a change in each of the focus subjects. In addition, a strategy administration has been formed, the principal duties of which are the coordination of plans for the change, assisting their realization, monitoring and control of the progress made and reporting to the Management and the Board of Directors.

Presently ICC is engaged in the formation of an updated strategic plan.

For details regarding the arrangement replacing criminal proceedings, see Note 36 F to the financial statements.

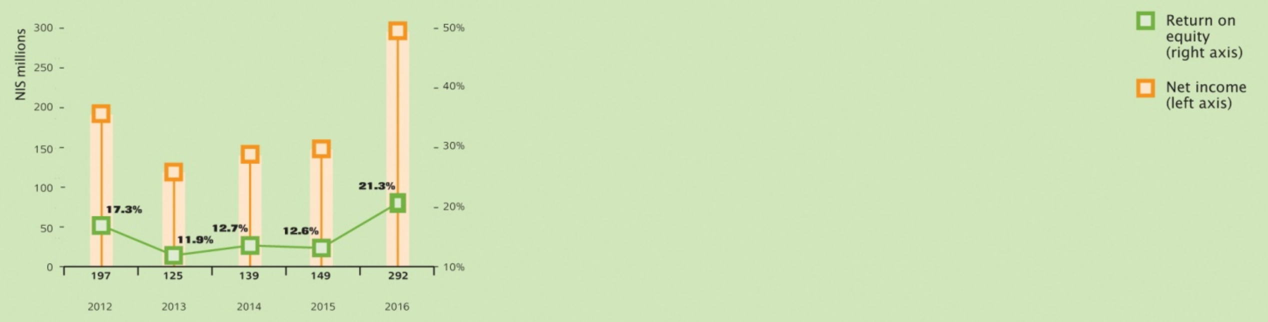
For details regarding the sale of Visa Europe, and the consideration received, as well as additional consideration expected to be received, see Note 36 D to the financial statements.

For details regarding activity in the credit card field in Israel, see in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the 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 binding arrangement in the field of

immediate debit cards ("debit"), see Note 26 C, items 12.2, 12.6, and 13.3 respectively.
The annual and quarterly financial statements of ICC are available for review on the Internet website of the company.

ICC -Development of Net Income and Return on Equity



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

Discount Capital, a fully owned and controlled subsidiary of the Bank, which is engaged in three main areas of operation:

- Investments in companies, private equity funds and in venture capital funds;
- Investment banking, including consulting and management of mergers and acquisitions (M&A), corporate finance consulting and advising in rating processes;

Initiating and advising public offerings and private placements and providing underwriting and distribution services, by means of the subsidiary Discount Underwriting and Issuing Ltd. (hereinafter: "Discount Underwriting").

Discount Capital – principal data

	In NIS millions		
Balance sheet items	December 31, 2016	December 31, 2015	Change in %
Total assets	1,288.3	1,139.1	13.1
Total equity	494.3	410.6	20.4
Profit and loss statement items for the year ended December 31	2016	2015	
Net profit attributed to the shareholders	76.3	66.5	14.7
The contribution to the Bank's business results[1]	78.0	80.9	(3.6)

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 profit in the years 2015-2016 was affected mainly by different realizations.

The merger of Discount Underwriting and Issuing Ltd. The merger of Clal Finance Underwriting Ltd. with and into Discount Underwriting was completed in 2016. As a result of this merger Discount Underwriting significantly increased the volume of its operations in 2016, presenting a growth in underwriting and distribution commission income of 4.5 times that at date of the merger and of 5.5 times that at an annual level. For additional details regarding an agreement for the merger, see Note 15 F to the financial statements.

During 2016, Discount Capital, through a subsidiary, participated in 87 public offerings of securities of which one with underwriting (of which two public offerings for the Discount Group) and in 12 private placements (of which, one private placement for the Discount Group) with a total volume of approx. NIS 37 billion (23 public offerings and 3 private placements with a total of approx. NIS 17 billion in 2015).

Realizations in the first quarter of 2017. In the first quarter of 2017, several realizations were made in investment funds in which Discount Capital invests, and also an investment in one of the companies was realized, in respect of which Discount Capital is expected to recognize a gain in the first quarter of 2017 of NIS 70 million, net of the tax effect.

CHAPTER "C" – RISKS REVIEW

GENERAL DESCRIPTION OF THE RISKS AND MANNER OF MANAGEMENT THEREOF

RISK PROFILE OF THE DISCOUNT GROUP – RISK ENVIRONMENT

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group has focused the geographical distribution, but the heterogenic risk environment (domestic and international, regulatory and internal), and the size of the subsidiaries in Israel and abroad in relation to the operations of the parent company expose the Group to an environment having a variety of different business and regulatory characteristics and on the other hand, contribute to the distribution of risk.

The major external effects, to which the Group is exposed, are:

- **The capital requirements from the banking industry.** The differential capital requirements prescribed by the Supervisor of Banks form a challenge for the banking industry. In recent years, the Discount Group has significantly improved its capital ratios, and the Group maintains capital adequacy in the ordinary course of business and in different stress situations, including by means of the raising of capital. The Group acts for the application of a Group financial management policy and has determined an upwards capital outline to improve the minimal capital ratios and performs a strict monitoring of the capital and of the implementation of the financing strategy at the Group;
- **Developments in economic markets.** A continuing moderation in global economy. A rise in volatility and in risk in the financial markets around the world, the monetary policy continues to be expansionary and the interest environment is expected to rise at a slow pace, inter alia, in view of the political uncertainty in relation to the effects of the elections in the U.S. on the economic and political arena, uncertainty and concern regarding additional crisis in the Eurozone, weakness of the European banks, which lead to concerns regarding a slowdown in the global economy, as well as a sharp slowdown in China, strengthening of Russia, and a decline in commodity prices and geopolitical risks;
- **Intensified competition, profitability risks and the business model.** The low interest environment, the growing regulatory supervision over income, structural changes are expected in the banking system and the removal of entry barriers for new competitors (mostly in the credit and digital fields), lead to a continued increased competition within the banking industry, to the transfer of banking activity to financial bodies that are not banks, and as a result thereof, to the erosion of the sources of income of the banking industry having potential to enlarge the risk appetite, to the short pricing of assets and to the development of new products through the pursuit of additional growth engine. The Group is working towards growth with a retail focus and is preparing for expansion of digital services and value offers to customers;
- **Development of digital banking.** This development, combined with the entry into effect of Proper Conduct of Banking Business directives regarding digital banking, have a cross organizational and challenging implications that are expected to change the concept of operation of traditional banking. A policy for digital banking has been approved, and the Group is preparing for its implementation, including initiation of projects in the fields of innovation, data and digital focusing on customer interface and experience;
- **The households leverage level.** The upward trend in the households leverage level continue, which in conjunction with fiercer competition, the low interest environment and the entry of nonbanking competitors could affect the whole economy and, consequently, the Group too;
- **The domestic real estate market.** A decrease is observed in the concentration of credit to the real estate sector. The Group is acting towards a change in the mix of the portfolio by means of spreading its operations to segment having lower risk profiles (in the granting of credit to housing project finance) and concurrently, the reduction in exposure to segments and borrowers having a high risk profile;
- **Regulatory changes.** The trend toward abundance and stricter regulatory requirements continues, both in Israel and globally, particularly as regards cross-border risks, the prohibition on money laundering including the application of severe tax offences as a predicate offence, and intensification of the requirements for compliance and the fair business conduct as regards customers, which increase the disclosure and reporting duties of banking corporations, requiring infrastructure preparations and integration of the changes among bank employees. Alongside the various regulatory changes, an increased enforcement trend is noticed in different areas (cross-border risks, investment

consulting, labor laws, antitrust laws, privacy protection, accessibility, etc.) and the potential for stricter personal liability. The Group acts in a continues manner to improve the organizational culture in general, and the compliance culture in particular, through allocation of administrative and budgetary resources and conducts a Group preparation for cross organization projects;

- **The final recommendations of the Strum Committee have been published.** The legislation has not yet been completed and significant uncertainty components still exist. ICC is expected to remain under ownership of the Group for an additional period of four years, at the end of which the question of its separation would be re-examined. ICC is preparing with a new strategic plan.

  The Group follows the publication of the recommendations of the Basel Committee (Basel IV), which may have a significant effect on restrictions and the manner and limitations on the computation of risk assets (credit, counterparty, market, operational), the management of the interest risk in the banking book, the computation of capital in the second pillar, allocation of capital in respect of nonfinancial investments, etc. The Supervisor of Banks has not yet decided to adopt the instructions;
- **Efficiency requirements from the banking industry –** the low efficiency ratios existing in the banking industry in Israel in general, and in the Discount Group in particular, when compared with other advanced countries, led the Supervisor of Banks to promote multi-annual efficiency measures, with a view of contributing to the long-term stability of the banking industry. Improvement in the operating efficiency ratios is one of the central goals of the Group, constituting a central axis in the strategic plan. The Group implements a multi-annual efficiency plan, including voluntary retirement arrangements, efficiency in expenditure as well as in assets. The plan includes also a planned gradual Group transfer to the Discount Campus. In view of the efficiency efforts made by the banking industry in general and the support of the Supervisor of Banks, the Group is expected to intensify its efficiency plans, thus contributing to the improvement in the administrative flexibility;
- **Cybernetic risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber risks and to the regulators and supervisory authorities, in Israel and globally, and the leakage of information internally and externally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, might also represent a business, strategic risk, and involved in fraud risk. The Group has formed a strategy and a cyber policy. Preparations continue for the completion of the guidance layer, including the definition of threat and reference scenarios, the definition of defense key areas;
- **Business continuity.** The regional geopolitical situation and the increase in cybernetic threats, require the Bank to prepare for the facing of stress situations and for the strengthening of business continuity processes. The Group continues to make preparations in accordance with the regulatory requirements and from time to time conducts business, technological and financial training exercises in order to test the preparedness of the Bank and the Group for events under various scenarios and in this framework, the Group relocated its secondary computer site to a hosting site during 2016.

In addition to external effects to which the Group as well as the banking industry as a whole are exposed, the labor relations at the Bank comprise a significant component of the risk map within the framework of which the Bank is operating:

Labor relations. An agreement was signed with the employee representative committee for the renewal of the Labor Charter until 2021 and the signing of a wage agreement until 2018, which contribute to the reduction of risk pertaining to labor relations. The updated Labor Charter is expected to improve administrative flexibility, with a focus on flexibility in employee mobility and in appointments to key positions. An emphasis is also put on the integration of change supporting performance culture.

The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.

PRINCIPLES OF RISK MANAGEMENT

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process.

The Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint.

The Board of Directors and Management assign great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.

High-level principles for risk management in the Discount Group:

- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed.
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law.
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks.
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense.
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint.
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management.
- A dynamic and evolving over time risk management concept in accordance with changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment.
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks.
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture.

RISK APPETITE

The Risk Management Division is responsible for the periodic updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another and be managed congruently and interactively, with the objective being to marry the Group's return and maintain its stability in a long-term view.

The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the risk preferences of the Board of Directors, through setting limits and defining clear and easily assimilated "boundaries" for activity and business directions and for ensuring compliance with regulatory requirements and limitations. The declaration includes quantitative and qualitative statements relating to each of the risk areas being managed, and these constitute the basis for drawing up risk appetite documents for the individual risk areas that include limits, goals and warning thresholds that form the outline for setting the Group's business policy.

The declaration's limits are set, inter alia, based on the use of various scenarios and stress tests, which constitute a central and important tool for assessing the risks and their potential impact on the Group's capital. The declaration includes statements and limits relating to a normal business situation and to a stress situation, and from a forward-looking perspective.

The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. In accordance with the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.

The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith.

In December 2016, the Board of Directors approved the risk appetite declaration of the Discount Group and during 2016 none of the limits set by the Board of Directors on this topic were exceeded.

RISK MANAGEMENT POLICY AND TOOLS

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see "Risk management tools" and "Risk culture and absorption of the usefulness of risk management processes" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

ASSESSMENT OF THE RISK PROFILE

The Group maintains the current monitoring of changes in the risk profile of the Bank and of companies in the Group, based on the Group tools and methodologies developed for the support of the monitoring of changes in risk profile, including the implementation of identification, measurement, assessment, monitoring, control and reporting processes, which include also the follow-up of limitations, indicators and various alert limits, including in comparison with the banking industry.

The quarterly risk document summarizes material changes that had taken place in the Group risk profile, with reference to the different risk areas. This document serves as a supporting tool for the Board of Directors and the Management in the monitoring of developments in the risk profile, in line with the risk appetite and with the long-term goals of the Group, while verifying the maintenance of capital appropriateness over a period of time.

In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.

STRESS TESTS

One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of stress tests with a forward looking view point as a complementary tool for the risk management processes.

The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.

The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers. Noted is the increased usefulness of the results of the scenarios and the stress tests as a tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

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

Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter 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 (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2016 annual report.

CREDIT RISKS

CREDIT RISKS AND THE MANNER OF MANAGEMENT THEREOF

The credit risk management concept of the Bank and of the Group is aimed at ensuring a proper balance between the business functions, which directly create exposure to credit risk and managing it, and the functions engaged in supervision, control and the independent evaluation of risks, as well as the functions engaged in audit.

CREDIT POLICY DOCUMENTS

The core documents relating to credit include the risk appetite and credit policy document of the Discount Group, the Bank's stand alone credit policy, the credit risk management policy document and the credit policy documents of each subsidiary, which serve as the infrastructure for credit risk management at the Bank and the Group, as well as the procedures and methodologies in the credit field being an integral part of the management and credit granting framework, according to which operations have to be conducted.

CREDIT RISKS MANAGEMENT AND REPORTING

The Discount Group bases the credit risks concept in accordance with advanced systems accepted around the world, by means of statistical and qualitative models, which are based on the risk components for the evaluation of the borrower's quality (Probability of default – PD) and of the quality and scope of the collateral (Loss given default – LGD). The Bank uses a number of measurement and reporting systems that support credit risks management. The process of integrating the new language continued in 2016, based on the products of the pricing project and Risk-adjusted return on capital evaluation (RAROC) at the Bank and at the Group, while promoting processes that develop and adopt advanced models for the assessment of credit risk.

STRUCTURE AND ORGANIZATION OF THE CREDIT RISKS MANAGEMENT FUNCTIONS

The organizational structure that serves the management of credit risk at the Bank includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:

First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.

The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management department of the Corporate Division and the control, collection and compliance department of the Banking Division.

The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.

Second line of defense. The risk management division is responsible for the formation and updating of core documents in the credit field, the current evaluation of the credit risk profile of the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances.

Third line of defense. The internal audit performs sample examinations of credit files, credit granting approval processes and its management, and checks whether work processes comply with the Bank's procedures. In addition, it performs cross-organization audits of credit issues.

CREDIT QUALITY AND PROBLEMATIC CREDIT RISK

PROBLEMATIC CREDIT RISK AND NON PERFORMING ASSETS

	December 31, 2016			December 31, 2015		
	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]3,053	187	3,240	[3]2,969	73	3,042
Substandard credit risk[2]	572	6	578	521	3	524
Special mention credit risk[2]	1,557	289	1,846	[4]1,105	414	1,519
Total Problematic Credit Risk	**5,182**	**482**	**5,664**	**4,595**	**490**	**5,085**
Of which: Non impaired debts, in arrears for 90 days or more[2]	440			412		
Non-performing assets:						
Impaired debts - non accruing interest income	2,504			2,517		
Assets received in respect of credit settlement	2			2		
Total Non-Performing Assets	**2,506**			**2,519**		

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 93 million (December 31, 2015- non accruing corporate bonds in an amount of NIS 25 million).

(4) Following the adjustment of the treatment of bonds to the treatment of problematic debts in general, bonds in the amount of NIS 165 million, were eliminated as from July 1, 2016, from the balance in which they had been included in the past (see "securities" above).

CHANGES IN BALANCES OF IMPAIRED DEBTS

	2016	2015
	In NIS millions	
Change in impaired debts (In respect of credit to the public only):		
Balance of impaired debts as of	2,944	2,776
Debts classified as impaired during the period	1,075	1,549
Debts no longer classified as impaired[1]	(46)	(16)
Accounting write-offs	(355)	(476)
Collections	(642)	(869)
Other	(33)	(20)
Balance of impaired debts as of	**2,943**	**2,944**
[1] Of which: due to consequent restructure	(16)	-

Changes in allowances for credit losses on impaired debts:		
Balance of allowance for credit losses as of	463	307
Increase in allowances	128	325
Collections and write-offs	(202)	(169)
Balance of allowance for credit losses as of	**389**	**463**

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

	December 31, 2016	December 31, 2015
Ratio of balance of impaired credit to the public to balance of credit to the public	2.1%	2.3%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.3%	0.3%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.5%	1.6%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	72.9%	69.7%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.5%	2.5%
Ratio of credit loss expenses to the average balance of credit to the public	0.34%	0.15%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.3%	0.1%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public	18.1%	7.4%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	63.4%	61.1%
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	2.4%	2.6%

The increase in the rate of the balance of the allowance for credit losses in respect of credit to the public from the balance of impaired credit to the public, stems mostly from the increase in the balance of allowance for credit losses, compared to 2015. The increase in the rate of net write-offs in respect of credit to the public from the balance of the allowance for credit losses in respect of credit to the public stems mostly from the rise in net write-offs.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS

	December 31, 2016									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	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**

For footnotes see next page.

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]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	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	331	331	-	111	-	-	-	-	-	-
Industry	6,040	5,774	175	5,352	2,815	175	16	47	36	51
Construction and Real Estate - Construction	227	176	45	227	171	45	45	4	-	5
Construction and Real Estate - Real Estate Activity	9,957	9,592	149	9,893	8,011	149	83	(13)	(25)	117
Electricity and Water	523	513	10	204	27	10	-	-	-	-
Commerce	7,545	7,171	236	7,541	4,692	236	230	19	32	56
Hotels, Hotel Services and Food	1,270	1,169	101	1,270	1,217	101	46	19	23	13
Transportation and Storage	1,116	1,050	66	1,041	1,017	52	13	6	-	13
Communication and Computer Services	834	808	26	204	138	26	26	(8)	-	16
Financial Services	11,433	11,331	95	2,735	1,707	95	75	8	10	21
Of which: Federal agencies in the U.S. [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**	**961**	**32,495**	**23,143**	**947**	**570**	**79**	**76**	**321**
Private Individuals - Housing Loans	160	149	8	160	154	8	-	-	-	1
Private Individuals - Other	2,107	2,104	1	2,102	1,445	-	-	2	1	15
Total Public	**47,090**	**45,599**	**970**	**34,757**	**24,742**	**955**	**570**	**81**	**77**	**337**
Banks Outside of Israel	7,982	7,890	93	5,218	4,960	-	-	(2)	-	-
Governments Outside of Israel	1,613	1,613	-	119	119	-	-	-	-	-
Total Lending Activity Outside of Israel	**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.

(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.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

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

For footnotes see next page.

TOTAL CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	December 31, 2015									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs for the year	Balance of allowance for credit loss
	in NIS millions									
Lending Activity Outside of Israel										
Agriculture	33	33	-	33	33	-	-	(1)	-	-
Mining & Quarrying	358	322	-	123	6	-	-	-	-	-
Industry	6,075	5,642	[12]107	5,597	2,989	109	33	31	29	41
Construction and Real Estate - Construction	136	136	-	136	78	-	-	(7)	2	1
Construction and Real Estate - Real Estate Activity	9,711	9,246	345	9,640	7,643	345	282	(37)	(47)	106
Electricity and Water	414	414	-	370	31	-	-	-	-	-
Commerce	7,541	7,349	192	7,435	4,831	192	33	5	(7)	70
Hotels, Hotel Services and Food	717	646	71	717	663	71	71	10	-	17
Transportation and Storage	1,072	1,044	18	1,060	709	6	6	(3)	-	7
Communication and Computer Services	867	826	26	414	359	26	26	-	-	23
Financial Services	11,532	11,396	89	2,838	1,698	89	88	(12)	(3)	24
Of which: Federal agencies in the U.S.[7]	8,183	8,183	-	-	-	-	-	-	-	-
Other Business Services	631	631	-	618	391	-	-	(12)	-	7
Public and Community Services[8]	4,863	4,828	-	2,966	2,643	-	-	12	-	25
Total Commercial	**43,950**	**42,513**	**848**	**31,947**	**22,074**	**838**	**539**	**(14)**	**(26)**	**321**
Private Individuals - Housing Loans	156	143	5	156	151	5	-	1	-	1
Private Individuals - Other	2,129	2,129	1	2,126	1,381	1	-	(6)	(2)	14
Total Public	**46,235**	**44,785**	**854**	**34,229**	**23,606**	**844**	**539**	**(19)**	**(28)**	**336**
Banks Outside of Israel	9,092	9,092	[12]-	5,469	5,349	-	-	(2)	-	2
Governments Outside of Israel	2,059	2,059	[12]-	14	14	-	-	-	-	-
Total Lending Activity Outside of Israel	**57,386**	**55,936**	**854**	**39,712**	**28,969**	**844**	**539**	**(21)**	**(28)**	**338**
TOTAL	**242,513**	**234,479**	**5,085**	**200,842**	**135,538**	**5,049**	**3,019**	**187**	**151**	**2,261**
Excluding balances classified as assets and liabilities held for sale – see Note 18	403	403	-	400	400	-	-	-	-	-

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 135,538, 37,632, 279, 3,208, 65,856 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale 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 331 millions.

(7) Including mortgage backed securities in the amount of NIS 5,672 millions, issued by GNMA and in the amount of NIS 2,511 millions, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,118 million.

(10) Credit risk,the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy.

(11) The balance of commercial debts includes housing loans in the amount of NIS 236 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(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 36 million, NIS 102 million and NIS 27 million, respectively; see "securities" above).

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 – 2016[1]

	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, 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 3,319 million and Germany – an amount of NIS 2,482 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 December 31, 2016 the Bank had no such exposure.

C. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY PROBLEMS, FOR THE YEAR ENDING DECEMBER 31, 2016

1. Information regarding balance-sheet exposure to foreign countries

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

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

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

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	(6)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).

EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED (CONTINUED)

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 THE BANK'S CAPITAL, THE LOWER OF THE TWO - 2015[(1)]

	December 31, 2015		
	Balance sheet exposure[(2)]		
	Across the border balance sheet exposure		
The Country	To governments[(4)]	To banks	To others
	In NIS millions		
United States	1,546	1,740	1,127
United Kingdom	-	2,314	401
PIIGS[(5)]	-	9	16
Other	302	3,410	2,149
Total exposure to foreign countries	**1,848**	**7,473**	**3,693**
Of which - Total exposure to LDC countries	108	204	588

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Ireland, Italy, Greece and Spain.

(6) Reclassified – the presentation of the transfer of credit risk to a consortium of international insurers, as of December 31, 2015 in the following countries: Switzerland – an amount of NIS 1,321 million; and Germany – an amount of NIS 1,166 million.

(7) Reclassification – The reclassification of certain balances following a re-examination of the final risk of the exposures.

December 31, 2015									
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									
33,980	21,207	12,773	17,186	477	244	(7)9,219	9	2,403	2,010
-	-	-	2,715	107	107	(7)226	-	1,872	843
-	-	-	25	1	-	9	-	12	13
278	271	7	5,868	62	60	(6)3,008	4	2,988	2,873
34,258	**21,478**	**12,780**	**25,794**	**647**	**411**	**12,462**	**13**	**7,275**	**5,739**
-	-	-	900	2	-	163	2	477	423

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

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

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

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

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

C. INFORMATION REGARDING THE BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES HAVING LIQUIDITY TROUBLES FOR THE YEAR ENDED DECEMBER 31, 2015

1. Information regarding balance-sheet exposure to foreign countries

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

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

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

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. In the last quarter of 2016, the Eurozone grew at a moderate rate of 1.6%, led by Germany and Spain. Concurrently, the inflationary environment recorded a growth to 2%. Nevertheless the core inflation remained at a low level of 0.9%. Accordingly, the central bank extended the validity of the bond purchases program from the end of March 2017 to the end of the year 2017, though it reduced the volume of the monthly purchases to € 60 billion.

A rise in political tension in the Eurozone is noticed in recent months, on the background of the imminent general elections in France and Germany and the expected growth in power of extremist political parties. The said rise is being reflected in the growing spreads of government bonds over the German bonds, both in the central countries, such as France and Belgium and in peripheral countries, such as Spain and Italy.

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.

The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is more strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and which have recently been validated;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Britain, having a rating of "BBB+" at the least;
- Close management of the volume of foreign currency deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA agreement with every financial institution with which the Bank enters into transactions of this kind;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management utilizing upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank, change in market data and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible.

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 94% of the exposure as of December 31, 2016, is to financial institutions rated "A-"rating or higher.

The states in respect of which the Bank has exposure as stated above as of December 31, 2016, include, inter-alia, the United States, Great

Britain, Germany and France.

In 2016, a loss on impairment of securities in the amount of NIS 11 million was included with respect to the exposure to financial institutions.

Present credit exposure to foreign financial institutions[1], 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 at 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
	As at December 31, 2015		
Present credit exposure to foreign financial institutions[6]			
External credit rating[7]			
AAA to AA-	2,349	608	2,957
A+ to A-	3,897	102	3,999
BBB+ to BBB-	260	14	274
BB+ to B-	16	3	19
Not rated[8]	70	96	166
Total present credit exposure to foreign financial institutions	**6,592**	**823**	**7,415**
Balance of problematic bonds	102	-	102

Notes:

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

(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.

(3) Mainly guarantees, including guarantees securing third party indebtedness.

(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.

(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 28 to the 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 12 to the financial statements).

(7) According to Moody's rating, and in its abesnce, 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 December 31, 2016 and 2015 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 55 million and NIS 116 million, respectively.

CREDIT RISK IN HOUSING LOANS

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 73 million as of December 31, 2016 and NIS 54 million as of December 31, 2015).

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted.

This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The 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.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, mix of the credit portfolio, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) - on the repayment ability of the borrower.

  Reduction in the volume of credit granted in loan lanes where the interest rates changes in accordance with the restriction determined by the Supervisor of banks;
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank’s exposure to credit risk - as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages.

The volume of the Group’s housing loan portfolio as of December 31, 2016, amounted to NIS 26,030 million (December 31, 2015 - NIS 22,044 million).

Certain risk characteristics of the Group’s housing loans portfolio

	December 31, 2016	December 31, 2015
	%	
Rate of housing loans financing over 75% of the value of the property	4.1	5.9
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	12.5	15.0
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	59.7	61.1

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

	2016	2015
Average amount of loan (in NIS thousands)	712	694
Average financing ratio for housing loans (in %)	55.8	54.9
Average financing ratio for general purpose loans (in %)	36.6	36.4

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

	December 31,			
	2016		2015	
Credit limit (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	20,959	81.1	17,970	82.2
Between 1,200 and 4,000	4,479	17.3	3,496	16.0
Over 4,000	421	1.6	403	1.8
Total	**25,859**	**100.0**	**21,869**	**100.0**
Of which:				
Housing loans that were granted abroad	73		54	
Deduction of allowance for credit losses	171		175	
Housing loans(1)	266		236	

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 266 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).

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 %
2016	26,030	(4)328	77	1.3
2015	22,044	(4)360	96	1.6

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2016 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 75 million, and also an allowance over the extent of arrears in an amount of NIS 2 million (as of December 31, 2015: NIS 93 million and NIS 3 million, respectively).

(3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 94 million as at December 31, 2016.(as at December 31, 2015: NIS 79 million).

(4) Including an amount of NIS 29 million, defined as problematic credit, which is not in arrears (December 31, 2015: NIS 33 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 266 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).

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

	2016		2015	
Loan to value (LTV) ratio(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	1,693	24.2	1,151	25.4
Between 45% and 60%	2,545	36.3	1,727	38.0
Over 60%	2,770	39.5	1,679	36.6
Total	**7,008**	**100.0**	**4,557**	**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.

An increase was recorded in 2016 in the volume of loans granted having a financing ratio of over 60% of the value of the property, compared with 2015. Notwithstanding the above, no change has been made in the financing rate of over 70%. It is noted that the component of in the volume of loans granted having a financing ratio of over 60% at the Bank is higher than this component of operations at the banking industry in general, however, analysis of the developments in this parameter at the quarterly level, shows a decline in the performance rate in this segment in the financing rate of over 70%, the Bank's share is similar to its part in the industry, and is even slightly lower.

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]
2016	5,795	10,331	62.4	4,224	5,225	36.5	1	283	1.1	25,859
2015	3,692	8,573	56.0	4,263	4,978	42.3	1	362	1.7	21,869

Footnotes:

(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 266 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31, 2015: NIS 236 million).

(2) The outstanding balance of credit is net of allowance for credit losses in the amount of NIS 171 million (December 31, 2015: NIS 175 million).

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

The outstanding balance as of December 31, 2016, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 3,076 million, comprising 11.9% of the total housing loans portfolio (as of December 31, 2015, the balance amounted to NIS 1,716 million, comprising 7.8% of the total housing loans portfolio).

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

	2016		2015	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	6,497	99.8	4,042	98.3
Over 40%	11	0.2	70	1.7
Total	**6,508**	**100.0**	**4,112**	**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 in 2015 at a refund ratio of over 40%, which comprised 1.7%. This trend also continued in 2016, and the aforesaid rate stood at 0.2%.

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

CREDIT RISK 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

Details of the portfolio of loans to private individuals (excluding housing loans)

	For the year ended December 31, 2016						
	Financial assets portfolio[2][3]						
	Less than NIS 50 thousand		Greater than NIS 50 thousand				
		Number of accounts		Number of accounts		In NIS millions	In NIS millions
	In NIS millions						
Level of income to the account							
Excluding permanent income to the account	1,590	171,879	254	12,572	1,843	795	2,638
Less than NIS 10 thousand	5,529	269,236	1,186	68,213	6,715	3,308	10,023
Greater than NIS 10 thousand, but less than NIS 20 thousand	3,235	70,529	1,214	51,582	4,449	2,528	6,977
Greater than NIS 20 thousand	2,435	35,574	1,925	52,973	4,360	3,128	7,488
Total	**12,788**	**547,218**	**4,579**	**185,340**	**17,367**	**9,759**	**27,126**

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

DEVELOPMENT OF THE RISK

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

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

RISK MITIGATING MEASURES

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

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

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

THE FAIRNESS PRINCIPLE

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

MONITORING AND CONTROL

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

CREDIT RISK IN RELATION TO THE CONSTRUCTION AND REAL ESTATE SECTOR

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate and Infrastructure department in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. The Bank's activities in this field are subject to a regulatory limit that prescribes 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.
Moreover, 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 conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – 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

	December 31, 2016			December 31, 2015		
	Credit for the public(1)(2)	Of which: problematic credit	Rate of problematic credit	Credit for the public(1)(2)	Of which: problematic credit	Rate of problematic credit
Sector	In NIS millions					
Income generating real estate	10,936	399	13.7	10,299	907	8.8
Construction – general building contracting	1,938	290	15.0	1,710	304	17.8
Residential projects financing	13,990	97	0.7	11,429	172	1.5
Acquisition of building land	3,560	83	2.3	3,131	73	2.3
Other	9,956	350	3.5	9,324	191	2.1
Total	**40,380**	**1,219**	**3.0**	**35,893**	**1,648**	**4.6**

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 of acquisition of means of control, which the Bank abides by.

Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2016. Disclosure is focused on exposure leverage transactions, each of which exceeds approx. NIS 81 million (December 31, 2015: NIS 75 million).

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

	December 31, 2016				December 31, 2015			
	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
Sector	In NIS millions							
Industry	345	52	397	-	739	152	891	-
Construction and real estate	605	245	850	-	917	241	1,158	-
Commerce	67	-	67	-	133	19	152	-
Financial services	-	-	-	-	110	-	110	10
Total	**1,017**	**297**	**1,314**	**-**	**1,899**	**412**	**2,311**	**10**

Exposure to leveraged finance as of December 31, 2016 amounted to NIS 1,017 million, compared to NIS 1,899 million at the end of 2015, a decrease of 46.5%. The aforesaid decrease was due, primarily, to changes in the financial ratios and from a reduction in credit balances, which led to the fact that the credit is no longer considered leverage financing.

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 December 31, 2016, amounted to NIS 297 million (December 31, 2015 – NIS 412 million).

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

MARKET RISKS

Market risk is the risk of impairment to the Bank's capital and profitability stemming from changes in financial markets and from fluctuations in market risk factors, which affect the accounting or economic value of the Bank's assets and its liabilities (balance-sheet and off-balance-sheet) and it includes a number of sub-risks, as detailed below:

Interest risk – the risk to the profits or capital resulting from movements in interest rates. It is custom to examine interest risk by reviewing a number of components: yield curve risk, repricing risk, interest bases risk and interest optionality risk.

Linkage basis risk – the risk of impairment to the economic or accounting value of the capital that might occur as a result of changes in the exchange rates or in the CPI, due to the difference between the value of the assets and the value of the liabilities, including the off-balance-sheet activity.

Shares, commodities and non-financial investments risk – the risk of impairment to the value of the Bank and its profitability stemming from changes in the prices of shares, commodities and the value of its non-financial holdings.

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

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.

STRATEGY AND POLICY

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and for defining the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.

Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the acceptance of uncontrolled risks.

The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an integrated Group perspective and within a framework of mandatory professional guidance.

The principal changes in policy during 2016, were focused on the definition of the Group's financial management roles (GT) and the interfaces between the subsidiaries and the parent company, of certain updating of methodologies and models and on the updating of a part of the quantitative limitations.

RISK APPETITE

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.

STRUCTURE AND PROCESSES

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:

First line of defense. Management of the aggregate Group risk is performed through the Global Treasury, which is responsible for the Group financial management of all the market risk takers in the Group, including the ALM, investment and dealing room units at the Bank, at IDB New York and at Mercantile Discount Bank. Measurement, control and operating units work as part of the first line of defense, which are entrusted with such activities and are operating independently of the risk takers.

Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.

Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted in accordance with a work plan that is approved by the boards of directors of the

Bank Group companies.

Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees (in addition to Management's activity as an organ): the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee and the financial forum.

MECHANISMS THAT ENABLE AN IMMEDIATE RESPONSE TO EXCEPTIONAL MARKET DEVELOPMENTS

The Board of Directors has approved the plan to strengthen the capital adequacy in times of crisis and the plan for handling a liquidity crisis. The plans includes both the organizational structure and monitoring processes when there is a rise in the risk level and also the alternative courses of action.

MEASUREMENT AND REPORTING

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments, is performed at the Bank by the first line of defense, on a weekly basis, using a designated system for market risk management.

Second line of defense controls the exposure to market risks by means of independent stress testing calculation at monthly intervals.

The risk management systems serve as a data base for financial data in which is assembled the financial information regarding the variety of financial instruments with which the Bank and its subsidiaries operate.

In the course of 2016, the Bank and its principal subsidiaries upgraded their risk management systems.

The upgraded systems comprise a breakthrough and widen the functional capabilities and monitoring frequency existing up till now.

MODELS AND RISK INDICES

Management of the market risks is performed using a number of internal models and indices, which take into account additional factors to those used for the purpose of the disclosure in the financial statements. The Board of Directors has defined principal management indices that are used in the current management, as well as additional indices.

Since the models are dependent on assumptions and limitations, their prudent management, in order to ensure proper use of the models, necessitates corporate governance and a framework for model risk management, including processes for challenging and validating the models.

The principal management indices include an index for sensitivity of the economic value to changes in interest, as well as an index for sensitivity of the accounting value in intermediate scenarios.

The additional indices and models include the Value at Fisk (VaR), an analysis of the losses in stress tests, an analysis of anticipated Net Interest Income (NII) and the Earnings at Risk (EaR). In addition, economic behavioral models have been defined that give expression to behavioral assumptions with regard to some of the balance-sheet items, where the balance-sheet balance do not correctly present the risk exposure. The additional models also include a model showing the spread of credit balances with undefined maturities, models to quantify asset prepayment risk and models for the early call of deposits.

EXPOSURE TO INTEREST RATE RISK

The interest rate risk is the risk of impairment in the Bank's profits and in its equity value stemming from changes in the market interest rate. The risk derives from exposure to future changes in interest rates and their possible impact on the present value of assets and liabilities, including certain economic adjustments. Management of the interest rate exposure is conducted separately in each of the linkage segments as well as the exposure of all segments together.

Current management of interest rate exposure is conducted by way of a current examination of a set of risk indices that include sensitivity analysis of parallel and nonparallel shift in interest graphs, interim scenarios and stress tests.

The Tables presented in this Chapter have been prepared in accordance with the principles for the preparation of financial statements, and they differ from the data used for the current management of interest rate exposure.

EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED

	As at December 31, 2016				
	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]	100,184	10,525	7,194	8,417	4,827
Derivative financial instruments (except for options)	13,748	23,521	11,441	10,782	4,479
Options (in terms of base assets)	117	344	663	275	136
Total fair value	**114,049**	**34,390**	**19,298**	**19,474**	**9,442**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	89,529	8,634	10,903	9,712	1,651
Derivative financial instruments (except for options)	17,887	25,818	15,537	10,597	4,625
Options (in terms of base assets)	89	352	622	16	3
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	**107,505**	**34,804**	**27,062**	**20,325**	**6,279**
Financial instruments, net					
Exposure to changes in interest rates in the segment	6,544	(414)	(7,764)	(851)	3,163
Cumulative exposure in the segment	**6,544**	**6,130**	**(1,634)**	**(2,485)**	**678**
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	584	534	2,809	7,005	5,131
Derivative financial instruments (except for options)	216	197	696	1,087	391
Options (in terms of base assets)	-	9	74	16	3
Total fair value	**800**	**740**	**3,579**	**8,108**	**5,525**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	228	739	1,901	3,105	3,338
Derivative financial instruments (except for options)	663	296	1,746	3,227	978
Options (in terms of base assets)	19	15	91	234	112
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	**910**	**1,050**	**3,738**	**6,566**	**4,428**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(110)	(310)	(159)	1,542	1,097
Cumulative exposure in the segment	**(110)**	**(420)**	**(579)**	**963**	**2,060**

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 December 31, 2016							As at December 31, 2015		
	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
	in NIS millions									
	4,939	647	59	328	137,120	2.84%	0.68	123,419	2.62%	0.59
	5,414	37	-	-	69,422		1.27	78,194		1.17
	38	-	-	-	1,573		0.01	1,300		0.01
	10,391	**684**	**59**	**328**	**208,115**		**(2)0.87**	**202,913**		**(2)0.81**
	645	73	-	-	121,147	0.27%	0.32	107,370	0.24%	0.25
	7,213	79	-	-	81,756		1.31	89,437		1.15
	2	-	-	-	1,084		0.01	874		0.01
	-	-	-	-	-		-	-		-
	7,860	**152**	**-**	**-**	**203,987**		**(2)0.72**	**197,681**		**(2)0.66**
	2,531	532	59	328	4,128			5,232		
	3,209	**3,741**	**3,800**	**4,128**						
	3,581	703	43	8	20,398	1.94%	3.47	19,834	1.73%	3.55
	2,091	21	-	-	4,699		4.29	4,160		3.54
	2	-	-	-	104		0.01	143		0.01
	5,674	**724**	**43**	**8**	**25,201**		**(2)3.61**	**24,137**		**(2)3.52**
	3,427	309	-	-	13,047	0.88%	3.36	15,204	1.15%	3.42
	892	42	-	-	7,844		2.15	6,259		2.28
	27	-	-	-	498		0.01	446		0.01
	-	-	-	-	-		-	-		-
	4,346	**351**	**-**	**-**	**21,389**		**(2)2.84**	**21,909**		**(2)3.03**
	1,328	373	43	8	3,812			2,228		
	3,388	**3,761**	**3,804**	**3,812**						

General notes:

(a) 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 Note 34 a-c.

(b) 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 34 a to the financial statements.

(c) 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.

(d) 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 December 31, 2016				
	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]	27,178	6,263	3,521	4,881	3,423
Derivative financial instruments (except for options)	25,431	34,145	20,282	5,485	3,103
Options (in terms of base assets)	492	1,462	1,323	30	-
Total fair value	**53,101**	**41,870**	**25,126**	**10,396**	**6,526**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	42,939	4,927	10,422	5,432	1,100
Derivative financial instruments (except for options)	16,174	32,469	13,114	4,957	3,277
Options (in terms of base assets)	487	1,445	1,343	63	20
Off-balance sheet financial instruments	-	-	-	-	-
Total fair value	**59,600**	**38,841**	**24,879**	**10,452**	**4,397**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(6,499)	3,029	247	(56)	2,129
Cumulative exposure in the segment	**(6,499)**	**(3,470)**	**(3,223)**	**(3,279)**	**(1,150)**
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1],[3]	128,244	17,322	13,524	20,303	13,381
Derivative financial instruments (except for options)	39,395	57,863	32,419	17,354	7,973
Options (in terms of base assets)	609	1,815	2,060	321	139
Total fair value	**168,248**	**77,000**	**48,003**	**37,978**	**21,493**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	132,994	14,300	23,226	18,249	6,089
Derivative financial instruments (except for options)	34,724	58,583	30,397	18,781	8,880
Options (in terms of base assets)	595	1,812	2,056	313	135
Off-balance sheet financial instruments	-	-	64	-	-
Total fair value	**168,313**	**74,695**	**55,743**	**37,343**	**15,104**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(65)	2,305	(7,740)	635	6,389
Cumulative exposure in the segment	**(65)**	**2,240**	**(5,500)**	**(4,865)**	**1,524**

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 December 31, 2016							As at December 31, 2015		
	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
	in NIS millions									
	6,257	879	-	416	52,818	3.12%	1.72	54,044	2.38%	1.62
	6,106	68	34	-	94,654		0.97	92,692		0.79
	-	-	-	-	3,307		0.10	2,558		0.01
	12,363	**947**	**34**	**416**	**150,779**		**[2]1.21**	**149,294**		**[2]1.07**
	17	15	-	-	64,852	1.05%	0.35	64,359	0.67%	0.39
	9,356	74	59	-	79,480		1.40	79,647		1.12
	10	-	-	-	3,368		0.10	2,675		0.01
	-	-	-	-	-		-	-		-
	9,383	**89**	**59**	**-**	**147,700**		**[2]0.91**	**146,681**		**[2]0.78**
	2,980	858	(25)	416	3,079			2,613		
	1,830	**2,688**	**2,663**	**3,079**						
	14,777	2,229	102	1,728	211,610	2.82%	1.21	198,659	2.46%	1.17
	13,611	126	34	-	168,775		1.19	175,046		1.02
	40	-	-	-	4,984		0.07	4,001		0.01
	28,428	**2,355**	**136**	**1,728**	**385,369**		**[2]1.18**	**377,706**		**[2]1.09**
	4,089	397	-	-	199,344	0.56%	0.53	186,992	0.46%	0.56
	17,461	195	59	-	169,080		1.39	175,343		1.18
	39	-	-	-	4,950		0.07	3,995		0.01
	-	-	-	19	83		0.08	66		0.08
	21,589	**592**	**59**	**19**	**373,457**		**[2]0.91**	**366,396**		**[2]0.85**
	6,839	1,763	77	1,709	11,912			11,310		
	8,363	**10,126**	**10,203**	**11,912**						

General notes:

(a) 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 Note 34 a-c.

(b) 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 34 a to the financial statements.

(c) 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.

(d) 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.

EXCHANGE RATE AND INFLATION RISKS

The exposure to base risk is reflected in the loss which may incur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and liabilities, including the effect of forward transactions and the effect of options embedded. Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency).

For details regarding assets and liabilities according to linkage terms, see Note 32 to the financial statements.

SHARE PRICE RISK

SHARES POSITION IN THE BANKING BOOK

Strategy and processes

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

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

For details as to the investment policy and the entities in which the Bank invests, see below "Investments in non-financial companies " under "Activity of the group according to regulatory segments of operation – additional details".

Investments in shares

	December 31	
	2016	2015
	In NIS millions	
Investments in shares of affiliated companies[1]:		
Non marketable shares	157	144
Shares in the available-for-sale portfolio:		
Marketable shares	110	493
Non marketable shares	853	803
Total shares in the available for sale portfolio	963	1,296
Total investment in shares	**1,120**	**1,440**

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

Capital requirement regarding share position

	December 31	
	2016	2015
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	171	143
In respect of investments in other shares[3]	65	102
Total capital requirement regarding share position[1]	**236**	**245**

Footnotes:
(1) The capital requirement was computed according to 12.7% and does not include capital requirment 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 "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.

MANAGEMENT OF POSITIONS IN THE TRADING PORTFOLIO

The Group distinguishes between exposures created in the course of managing the Bank's assets and liabilities and an exposure to trading. Generally, trading exposures exist only at the parent company and are mainly concentrated on the dealing room as part of the Bank's activity as a "market maker" and the dynamic management of its liquid financial asset portfolio. Immaterial trading exposures exist from time to time at the subsidiaries. The trading activity is intended to generate income, while accepting exposure within the permitted risk limit for this activity and maintaining daily and intra-day monitoring and control.

The Board of Directors has set a separate series of limitations for trading activity and for assets and liabilities management activity. The limitations on the various trading activities have been set both in terms of the scope of the activity, and also in terms of the sensitivity to risk factors, among which, the VaR and the theoretical loss in the scenarios, including stress tests.

In 2016, no material deviations from limitations set by the Board of Directors were recorded.

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

Liquidity risk is perceived as one of the material risks for any financial institution. The objective in managing this risk is to avoid a situation in which the Bank has difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).

The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.

As part of its policy, the Bank has made arrangements to deal with all matters relating to the management of the liquidity risk and, in so doing, has prescribed: the appetite for liquidity risk, the organizational structure for managing the risk, the core processes and the policy implementation format (including a set of various limitations) in a normal situation and upon the occurrence of a liquidity event.

As part of the routine management, the liquidity risk is estimated using an internal model for different periods, from one day to one year. The internal model computes the liquidity ratio and the liquidity gaps under different scenarios, which put pressure on the items of the Bank's resources and applications. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events. In addition, the liquidity risk is also measured by means of the uniform regulatory model (LCR).

The internal model, over its various scenarios, constitutes core of the liquidity management, although the Bank makes use of additional indices and tools to monitor the liquidity risk:

- as part of the liquidity risk management, reviews are conducted of additional parameters that relate to the mix and concentration of the resources (in order to illustrate the limit for reliance on a single liquidity resource or the limit for reliance on specific types of resource, such as "financial deposits"), the mix and concentration of the assets, scenarios that complement the internal model (a forecast of liquidity gap Development under the work-plan assumptions and the Group liquidity gap) and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of different indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's) ("Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

PLAN FOR DEALING WITH A LIQUIDITY CRISIS

Within the framework of approving the policy, a document setting out the "plan for dealing with a liquidity event/crisis" is also approved. The objective of this plan is to prescribe the strategy for contending with a liquidity crisis in such a way as to enable the Bank's liquidity sources to be suitably managed. The plan includes definitions of:

- Identifying and defining a variety of practical financial measures that can be utilized in times of emergency and which provide flexibility, while defining clear prioritization procedures;
- Outlining courses of policy for managing a range of problematic environments and the creation of a framework, including defining spheres of responsibility, that will facilitate a clear decision-making process for the purpose of prioritizing the measures that need to be taken,

their timing and an authorities hierarchy for taking such decisions;
- Determining the identification and reporting processes, including specifications for reporting to the Management and the Board of Directors.

The detailed plan relates to Discount Bank, which manages the Group liquidity. The material subsidiaries approve an action plan at the company level using similar methodology to that of the Bank.

The main points in the management of liquidity in times of heightened pressure or crisis, include the following:
- Identification of a developing exceptional liquidity situation and the definition of different levels in a developing event;
- Identifying and announcing a liquidity crisis – including convening the various forums in accordance with the level of risk that has arisen, and distinguishing between a specific and a systemic event;
- Measures to improve the liquidity level – also in connection with the definition of the "state of the managed liquidity". The Bank has defined a number of different managed liquidity situations (heightened risk/crisis, a specific/systemic event) and has defined various response tools for each;
- Measurement and monitoring of the liquidity level;
- Announcements – in-house or public in accordance with the managed event;
- Group management mutual reporting and the transfer of liquidity between the companies.

Reporting – the various reporting obligations are detailed in the plan for the various management and oversight organs, in accordance with the managed event.

GROUP MANAGEMENT

The policy document also regulates the way in which the Group liquidity risk is managed. In general, the guiding principle is that the material subsidiaries of the Group will independently manage their liquidity risk with the aid of mandatory professional guidance and in accordance with models approved by the parent company. The internal model of the parent company requires maintaining liquidity in case the subsidiaries' models exceed the thresholds defined in the policy document. The model does not include reliance on the transfer of liquidity from the subsidiaries to the parent company. Most of the liquidity surpluses in the Group are currently concentrated in the parent company, thereby providing sufficient flexibility for the transfer of liquidity.

REPORTING

Daily –Measurement of liquidity risk is performed on a daily basis by an internal liquidity model and by a regulatory model (LCR), by means of the Bank's market risks management system. Measurement results are reported to the risk managers and control parties.

As from January 1, 2017, the Group has a daily Group LCR computing and reporting capabilities.

Weekly – a special purpose liquidity forum convenes once a week and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.

Monthly – the Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.

Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

LIQUIDITY COVERAGE RATIO

As of December 31, 2016, the liquidity coverage ratio of the Discount Group on the basis of an observation average stood at 146.5%, compared with 128.0% as of December 31, 2015, higher than the minimum requirements according to the instructions.

For additional details, see Note 25 C to the financial statements.

LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

General

A steep rise of 17.6% was recorded during 2016 in the M1 money supply (cash in the hands of the public and current account Shekel deposits), of which current account deposits recorded a growth of 21%, while cash increased by approx. 5%. The rise in the M2 money supply (M1 plus non-linked deposits of up to one year) was more moderate - about 10%. These trends occurred on the background of the near zero interest environment that prevailed throughout the year 2016, as well as the uncertainty in the financial markets. It is noted that in 2015 the M1 and M2 money supply rose by approx. 41% and 12%, respectively.

In 2016, the monetary base increased by an amount of NIS 10.8 billion, compared to NIS 8.4 billion in 2015. The said growth stemmed from the supply of liquidity by the Bank of Israel and the Government. 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), the liquidity surplus being absorbed by tenders for Shekel deposits.

Sources for the change in the monetary base

	2016	2015	Change
	In NIS billion		in %
Operations on the Capital Market	11.1	14.1	(21.3)
The Shekel deposits tender	(28.0)	(26.7)	4.9
Foreign currency conversion	23.1	33.8	(31.7)
Government activity	3.5	(14.0)	

THE BANK

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

- An increase of NIS 8.9 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 10.5%, of which an increase in retail deposits of NIS 6.2 billion, an increase in corporate deposits of NIS 3.9 billion. On the other hand, redemption of debt notes issued by Discount Manpikim in the amount of NIS 1.2 billion, which had been deposited with the Bank;
- Transition of liquidity from deposits to current accounts in an amount of NIS 3.3 billion in the shekel segment, due to the low interest environment;
- Eliminating the impact of the exchange rate, foreign currency deposits increased by an amount of US$515 million. A decline of US$30 million in retail deposits and on the other hand, an increase of US$545 million in deposits by corporations. Foreign currency deposits including the effect of the exchange rate increased by NIS 1.6 billion.

Furthermore, the raising of capital (see Note 24 D to the financial statements) contributed approx. NIS 608 million to the Bank's financing resources.

It is noted that at the beginning of January 2017, the Bank issued for the first time secondary capital of the COCO class (see Note 25 D), within the framework of which the Bank raised liquidity in the amount of NIS 784 million.

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.

Deposits from the public

	December 31, 2016	December 31, 2015	Change compared December 31, 2015	
	In NIS millions		In NIS millions	in %
Non-linked shekels	87,917	77,564	10,353	13.3
CPI-linked shekels	5,761	7,208	(1,447)	(20.1)
Foreign currency and foreign currency linked shekels	29,675	28,007	1,668	6.0
Total	**123,353**	**112,779**	**10,574**	**9.4**
Foreign currency and foreign currency linked shekels - In US$ millions	**7,718**	**7,178**	**540**	**7.5**

Deposits from Banks

	December 31, 2016	December 31, 2015	Change compared December 31, 2015	
	In NIS millions		In NIS millions	in %
Non-linked shekels	945	902	43	4.8
CPI-linked shekels	293	61	232	381.0
Foreign currency and foreign currency linked shekels	468	710	(242)	(34.0)
Total	**1,706**	**1,673**	**33**	**2.0**

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 33 regarding Assets and liabilities according to linkage terms and maturity periods.

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

OPERATIONAL RISKS

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

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

The framework for the management of operational risk includes the policy document for risk management, which is approved once in each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Group has integrated a computer system for the management of this risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.

Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).

Once every three years (or during a period of three years) a comprehensive operational risks survey is performed, which includes, among other things, reference to embezzlement and fraud risks and business continuity risks. The Group completed this year an operational risk survey that had begun in 2014. As from 2017, a new survey, as stated, will begin in a similar format.

During 2016, no material changes were observed in the number of reports on the realization of risks and the resulting amounts of damage caused in their respect, which might affect the overall operational risk profile.

The year 2016 has been characterized by a growing trend of fraud and impersonation attempts, both in the traditional and online service channels. Furthermore, also growing is the trend of implementation of changes in work procedures stemming from the realization of the strategic plan. All these increase the risk, partly in the short term and partly comprising continuous trends. The quality of management is improving at the same time by the promotion of the operational risk survey, the growth in and integration of awareness to the reporting of events and the strengthening of interfaces and controls.

No deviations were recorded during the year from the limitations on operational risks, and stability was recorded in most positions of the Bank compared with prior years.

The issue of business continuity is managed by means of the strategy for the management of business continuity, which defines the solution concept for facing a crisis, and by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.

At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services. Mapping of the business continuity risks and the assessment and monitoring thereof is performed as part of the identification and evaluation of operational risks, and is managed by the operational risk management system. An additional system supporting this process is the crisis management system.

OUTSOURCING AND SUPPLIER RISK

This risk is managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. Against the aforesaid background, the outsourcing and supplier risk management policy document was updated this year and the work process relating to essential outsourcing (either routine or emergency) has been improved, including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

OTHER RISKS

CROSS-BORDER RISKS

The Group's activity in Israel and abroad with customers involves risks stemming, among other things, from exposure to liability for evasion by any of the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.

Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.

Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".

Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, the risk appetite has been determined and identification, monitoring, control and reporting processes have been added.

Moreover, the action for reducing the Group's international presence, taken as part of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure.

In addition, in view of the intensification of regulation and enforcement trend, led by the Tax Authority, relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the

Money Laundering Prohibition Act to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group acts towards the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

LEGISLATION AMENDMENTS IN ISRAEL

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

The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. The Income Tax Ordinance Amendment Act became effective on August 4, 2016, upon the publication of the regulations required under it.

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

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

The Bank is continuing with the FATCA implementation, incorporating the requirements arising from the legislation at the same time. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for the years 2014 and 2015.

Automatic exchange of information (CRS). The Bank acts to identify countries to which its customers have a tax reporting duty, while implementing the guidelines of the Supervisor of Banks in the matter, and where required, would modify its activity in this respect in accordance with the Israeli Regulations in the matter, once published.

INFORMATION TECHNOLOGY RISKS

The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with a view of enabling efficient focusing on areas and systems identified as having higher risk of disrupting the business activity, the formation of multi-annual work plans, as well as the prompt adjustment of the risk management strategy and the risk map, in accordance with changes occurring at the Bank and/or in its operating environment.

STRATEGIC RISK

The strategic risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense, and the Head of the Planning, Strategy and Finance Division acts a manager of this risk.

Challenges of the competitive environment, development of digital banking and expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.

The Bank continues in promoting a multi-annual strategic plan which includes different projects that are expected to provide solutions for the principal challenges. It was decided during the year on a revision of the plan and on the promotion of several additional important projects, most of which in the innovation, digital and data fields, with a view of maintaining the position of the Group as a leading banking group, also from the forward-looking aspect.

REPUTATION RISK

The reputation risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense. Due to its importance and complexity, this risk is being managed by the highest echelons in the organization. The President & CEO is responsible for the risk management in times of crisis, and the Head of the Planning, Strategy and Finance Division is responsible for its management in normal times. This, in addition to the responsibility of each member of Management for the field under his control.
As support for risk management, a Group reputation forum operates, which meets on a quarterly basis, discusses internal and external risk issues and monitors indices and indicators regarding various risk areas, which might have possible relation to the reputation risk.

ENVIRONMENTAL RISKS

Within the framework of the Bank's credit methodology in the matter of environmental risks, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral.

LEGAL RISKS

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract, by ignorance of the provisions of the law, by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.
The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.
According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.
The principal risk factors for legal risk exposure are: absence of knowledge of the law, whether local or foreign, applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.
The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks. An operation in contradiction to these instructions, or the non-implementation thereof, might expose the Bank to regulation risk.
The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.
The Bank has a Group legal risks management policy that was updated and which is presently brought for approval of the Board of Directors. The policy has been adopted by the principal subsidiaries in Israel and by the Bank's extensions abroad, mutatis mutandis. This policy is being updated every two years.

COMPLIANCE RISKS

Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a material financial loss or of reputational harm, which the banking corporation might sustain as a result of failing to comply with the laws, the regulations, the regulatory directives, the internal procedures and the ethics code that apply to its banking operations.

PRINCIPAL DEVELOPMENTS IN 2016

The Amendment of Proper Conduct of Banking Business Directive No. 308, in the matter of "compliance and the compliance function in a banking corporation" (hereinafter – "the Directive") took effect on January 1, 2016. The amendment was based on many sources, including the guidelines of the Basel Committee, relevant international sources and instructions relating to risk management and corporate governance.
The change in the Directive contains several material changes such as, the compliance risk management concept by the authorized organs at the Bank, the duties of the compliance function at the Bank and at the Group, and more. These changes include an instruction which expands the manner in which the Bank is required to monitor the overall regulations applying to it, through a risk based approach.
The said change was implemented in the compliance risk management policy at the Bank and it requires active action and preparations for the integration of the changes. Within the framework of that stated above, the compliance function has taken action for the integration and implementation of the Directive, within which: an operating and management concept was formed, which includes a functional administrative and organizational structure designed to support the compliance risk management in its wider context, in a risk based format; an updated Group policy document was formed for the management of compliance risk; A charter was formed and published for the regulation of the position and independence of the compliance function, including the definition of its duties; a new compliance risk management methodology was formed with a risk based approach, and more. The formed documents were presented to the principal subsidiary companies for adoption with required modifications. Moreover, the compliance function and the chief compliance officer heading it assist the relevant subsidiaries on a current basis, in the preparations for the implementation of the instruction. In this framework, hundreds of compliance instructions, past and present, have been located, of which were selected instructions found relevant to the Bank's operations. A risk manager has been appointed in respect of each of the said instructions, who is responsible for its implementation.
Transfer of the Internal Enforcement Unit. In September 2016, it was decided to transfer the Enforcement Unit from the Legal Advisory Division to the Risk Management Division and to appoint the Chief Compliance Officer and Anti-Money-Laundering Officer to be also in charge of internal enforcement. The transfer came into effect from October 1, 2016.

PROHIBITION OF MONEY LAUNDERING AND TERROR FINANCING

Discount Group’s activities with banks acting in the Palestinian Authority. Within the framework of correspondent bank relationships between the Discount Group and the banks operating within the Palestinian Authority ("Palestinian banks"), representative services are provided to the Palestinian banks at the interbank shekel clearinghouse, as well as other services.
Over the years, in light of concern regarding exposure to risks involved in such activity, the topic of the activity with the Palestinian banks has been discussed on a number of occasions at the board of directors of both the Bank and MDB, with the Discount Group’s position having been that, in view of the risks pertaining to such activity, the activity with these banks should be discontinued.
In light of this, the Bank has announced, on the various occasions, its desire to discontinue its engagements with the Palestinian banks. However, its requests to discontinue the engagement with the Palestinian banks has not been accepted and, on a number of occasions, the Bank of Israel has clarified that the aforesaid engagement is essential for the State of Israel and that the Bank of Israel attaches considerable importance to the continued provision of this service.
In November 2006, a specific permit was issued to the banks representing the Palestinian banks at the clearinghouse, which exempts these banks from certain examination obligations. This permit is intended to provide an answer to the concerns of the representative banks and to provide them with certain protection against the risks involved in this activity.
In January 2009, all banking activity with the Gaza Strip was discontinued, including the clearing of checks, transfers in Israeli currency and in foreign currency, the clearing of electronic receivables and clearing through the Banking Clearing Center carried out within the framework of the banks’ clearinghouse. MDB followed the same course of action. Furthermore, the Bank discontinued its activities with banks in Judea and Samaria, apart from the clearing of checks, the transfer of funds to Israel through the Banking Clearing Center and the transfer of foreign currency to Israel.
On May 1, 2016, the Bank applied to the Supervisor of Banks and to the Director General of the Ministry of Finance and again made a request to discontinue providing services to Palestinian banks, including discontinuing representing them at the interbank shekel clearinghouse. Alternatively, the Bank sought to receive an appropriate solution to the risks involved in the aforesaid activity.

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.

The Bank has recently become aware of discussions being held with respect to the formation of tools hedging against the risk involved in providing services to the Palestinian banks, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims. No outline in the matter has, as yet, been presented to the Bank.

Petition to the High Court of Justice. A petition was filed on December 14, 2016, with the Supreme Court, sitting as a High Court of Justice, requesting the Court to instruct the Minister of Finance and the Director General of the Ministry to provide reasons for not refraining from the granting of a commitment to indemnify the Bank and another bank appearing as a Respondent (hereinafter: "the respondent banks"), and/or refraining from granting a commitment to defend these banks in case the respondent banks are sued or indicted in respect of the financing of terror, all that, due to their business relations with banks in the Palestinian Authority. Furthermore, it is proposed to instruct the cancellation of guarantees or letters of indemnity, in as far as these had been granted to banks.

In accordance with the decision given on December 26, 2016, the Respondents have to submit a preliminary response by February 12, 2017. The Respondents have filed a motion for an extension of the response submission date.

CONDUCT RISK

This risk is managed as part of the compliance risk. This risk defines the importance of dealing with customers fairly and not taking improper advantage of the banking corporation's position in its relations with its customers. Conduct risk is part of the regulatory trend whereby the markets are influenced by means of "preventative supervision" rather than by the traditional means of "responsive supervision".

This risk is being considered by the regulator, who is integrating the principles thereof in various regulatory provisions (Proper Conduct of Banking Business Directives Nos. 422, 450, etc.). In the Bank's opinion, this risk will be the focus of regulatory actions in the coming years.

The Bank has made preparations for practical assimilation and training on this topic and for raising awareness of the importance of proper conduct and transparency vis-à-vis customers.

RISK FACTORS TABLE

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor: substantial, medium and small impact. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low). Within the framework of risk management processes at the Discount Group and in accordance with regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with an orderly Group methodology for the evaluation of the risk profile. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes, the examination of implications from a forward looking view and more.

All these, as well as the methodology that had been formed for the internal capital adequacy assessment process, comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.

Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.

In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank`s Management, of the material risk factors and their impact, in accordance with the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

RISK FACTORS TABLE

The risk		Risk Factor Impact	Basing the assessment
1.	Risk environment	Medium-High[1]	An increasing level of competition, both banking and off-banking, the rise in market uncertainty, the geopolitical environment and expected changes in the operating concept of the banking system, alongside the continuing challenge of increasing risks, including cyber threats and cross border risks. A significant improvement is noted in the internal risk environment as derived from the progress made in the implementation of the strategic plan, the focusing of the Group on the domestic market, renewal of the Labor Charter, strengthening the capital position, accelerated growth, improvement in the quality of assets and more.
2.	Overall impact of credit risk	Medium	The continuing growth in credit in all relevant companies in the Group in accordance with the strategic plan, while maintaining processes for improvements in the quality of the portfolio and in the quality of the management thereof, by means of improved supporting tools and models, including the promotion of implementation of a Group project for risk adjusted pricing.
2.1	Quality of borrowers and collaterals	Medium	A certain decline in indices regarding the quality of the credit portfolio, and on the other hand the progress made in the development of risk based models as well as improvements in management and credit monitoring processes.
2.2	Industry concentration risk	Medium	The Group complies with the regulatory restrictions.
2.3	Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3	Overall impact of market risks	Low-Medium	A decrease in exposure level reflected in the results of sensitivity and stress tests performed by the Group, alongside the establishing of the Group's global treasury management and the continuing improvement of tools, models and infrastructure supporting risk management.
3.1	Interest rate risk	Low-Medium	A low exposure level and the risk management quality is in a continuous improvement trend.
3.2	Inflation and exchange rate risk	Low	Maintaining a low exposure level alongside the strict monitoring of its effect.
3.3.	Share price and credit spreads risks relating to the holding of securities	Low	An improvement in the mix and in the portfolio distribution indices and the reduction in the correlation of investments with the Group's credit activity.
4.	Liquidity risk	Low	A high liquidity level in the markets. The Group is expected to reduce liquidity surplus in a controlled manner, due to plans for the continued growth in credit at the Bank and at the Group. Continuing improvements in the quality of management, including increased monitoring and control and improvement of the processes and infrastructure of the Group financial management.
5.	Operating risk	Medium	Progress made in the automation of processes and controls, strengthening the preparedness for business continuity and the separation of reference to information technology, data protection and cyber risks (see below). The challenges of implementation of the strategic plan, which in certain of the projects is in implementation stages, and the implications of efficiency measures, increase the risk at the preparation stage. Nevertheless, these moves are accompanied by strict risk management processes and the close monitoring of the strategic plan risks exists, including integration of structured control processes in the implementation of the projects. Moreover, improvement continues in the quality of risk management, a wage agreement has been signed and the validity of the Labor Charter has been extended, all these contributing to improvement in labor relations at the Bank. An independent Group risk survey has been completed, and a risk management system has been integrated in the Bank Group.

[1] Relates to the evaluation of the risk environment impacts: domestic, global, the local and international competition environment and the regulatory risk environment.

RISK FACTORS TABLE (CONTINUED)

The risk	Risk Factor Impact	Basing the assessment
6. IT risk	Medium	The computer plan is compatible with the strategic plan and is progressing without delay. During the year, the Bank completed the transfer of the central computer plant to a secondary host plant, and continuous improvements in infrastructure and in redundancy are being made. Dependency of the business activity on the computer group exists on the background of the competitive environment and the increased regulatory requirements. Nevertheless, several significant actions were taken for the positioning of the Group's digital activity.
7. Data protection and cyber risks	Medium-High[2]	Systematic risks exist stemming from increasing threats and the rise in their potency and probability level. The Group allocates resources for facing these risks, strengthens and improves the quality of risk management, including implementation of regulatory requirements, regulating policy and procedures and reinforcing the tools for the monitoring and control of risk. In addition, a multiannual defense plan has been formed and exercises and improvements are performed in the defense layout and in data protection.
8. Legal risk	Medium	The continued toughness and the abundance of regulatory requirements together with increased enforcement in Israel and the world over, and this, given the high quality of management and the measures taken for the monitoring and control of the risk.
9. Cross-border risks	Medium-High[2]	The assessment reflect the system's risk level in the light of trends in Israel and the world over for increased regulation and enforcement, including agreements for the exchange of information and exposure of banking groups to examination and investigation by foreign authorities. The Group has reduced its international presence and has allocated resources for the management of the risk, as well as completing the establishment of identification, monitoring and reporting procedures, including the progress made in the automation of procedures and controls.
10. Compliance, Money Laundering and Financing of Terror risks	Medium	On the one hand, the expansion of regulatory duties (Proper Conduct of Banking Business Directive No. 308, amendment of the Prohibition of Money Laundering Act in the matter of determining severe tax offences as a predicate offence, amendment of Proper Conduct of Banking Business Directive No. 411, and more) and increasing expectations for fairness and honesty towards customers. On the other hand, continued improvement of risk management quality, including improvements in supporting tools and infrastructure, putting an emphasis on risk based training and controls and continuing the integration of compliance culture and fairness values in activities and processes.
11. Reputation risk	Medium	Significant actions taken by the Group have won investor confidence and enabled raising the rating of the Group, in the center of which is the improvement in all focus points of the strategic plan, strengthening the capital, reverting to accelerated growth, digital improvements, efficiency measures and improvement in administrative flexibility. Likewise, a continuing improvement exists in the quality of risk management, including the holding of a quarterly Group forum and the monitoring of indicators supporting reputation risk management.
12. Strategic risk	Medium	Despite improvement in strategic focus points and in the progress of the plan, challenges exist in the risk and competition environment, including the continuing gaps in return on equity and in efficiency ratios. The Group has revised the strategic plan, taking into consideration expected changes in the local and international competitive environment, and has introduced a number of projects in the innovation, digital and data fields, which are expected to contribute to the future positioning of the Group in this field.

[2] Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

CHAPTER "D" – ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROL AND PROCEDURES

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

GENERAL

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) 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 field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.

Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime 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.

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 information and professional judgment.

Following is a summary review of evaluations and assessments made as regards "critical" matters.

ALLOWANCES FOR CREDIT LOSSES

The process of assessing the loss inherent in the credit portfolio, as described in Note 1D 4 regarding the accounting policy, is based on significant assessments involving uncertainty, and on subjective assessments, both at the stage of identifying and classifying the debts and at the stage of measuring the allowance for credit losses. A change in assessments or in estimates may have a material effect on the allowance for credit losses as presented in the Bank's financial statements.

The Bank examines the overall adequacy of the allowance for credit losses. The adequacy evaluation, as stated, is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and in the evaluation methods applied in the determination of the allowance.

For details regarding the accounting policy, see Note 1 D 9 to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Developments of assets and liabilities". For details regarding the credit risk management at the Bank, see "Credit risks" above in Chapter C – "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

Change of method at Mercantile Discount Bank. For details, see Note 1 F to the financial statements.

A change in the computation of the group allowance. For details regarding the change applied as from April 1, 2016, in accordance with guidelines of the Supervisor of Banks, see Note 1 C 6 (4) to the financial statements.

CONTINGENT LIABILITIES

Against the Bank and against other banks and companies in the Group are pending legal actions on various issues, including class action suits and requests for approval of actions as class action suits.

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard FAS 5 - "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating a allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

The U.S. Standard rules that if the loss cannot be assessed, no allowance should be created in respect thereof, but the matter should be disclosed if it might be significant. For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits, due to the following reasons.

According to Israeli law, a plea for the approval of a class action constitutes in fact a preliminary procedure in which the Court examines several prerequisites in order to decide the plea. Inter-alia the Court examines whether the claimant is appropriate and fitting, whether he is in good faith, whether a class action is the fair and appropriate way of dealing with the matter, whether the action reveals joint questions of fact and law, and the Court assesses also the prospects of the action. The Court further determines in the same decision the nature of the group that the claimant would be entitled to represent and on grounds of what cause the action will be filed. It is understood from the above that most of the parameters are exogenous to the prospects of the action itself, and they are generally clarified in the course of the proceedings (which may continue over several years).

When the Court’s decision in the matter is given, a request for permission to appeal is usually submitted, which is also dealt with over a long period. Only afterwards, if the request for appeal is dismissed, the class action begins to be heard subject to limitations determined in the preliminary procedure.

The accounting principle adopted by the banking corporations in Israel is indeed the U.S. principle, however it is vital to bring into account in this respect the difference in the characteristics of the U.S. reality compared to Israeli reality, and the difficulties that arise as a result.

The U.S. has experience of many years (several decades) regarding the issue of class action suits and there is recognized and tested data, including the rate of compromise agreements and the amounts paid in compromise settlements. Such an experience is lacking as regards the law and practice in Israel. Also the legal procedures in the U.S. are different than those in Israel, allowing each party to interrogate the witnesses of the other party before the case is heard in Court, thus making it possible to evaluate the prospects of the action at an earlier stage. The issues discussed above create special difficulties in everything related to class action suits and motions for approval of class actions.

As stated, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels. Such opinions are subjective and face objective evaluation difficulties. Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.

The Bank's Management and its Counsels, as well as the managements and counsels of other banks and companies in the Group, examine once every quarter the pending actions and update, where necessary, the provisions created therewith in the light of developments.

The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.

It has been determined in the public reporting directive in the matter of "The accounting treatment of contingent claims" that in evaluating the outstanding legal actions, the management of a banking corporation is to rely upon legal opinions of Counsel, which should determine the probability of the exposure to the risk involved in such actions materializing. Claims have been classified according to the probability range for a risk exposure materializing, as described in Note 1 D 17 to the financial statements. The financial statements include appropriate provisions for claims in respect of which realization of the related risk exposure as "probable".

The financial statements include disclosure of material legal proceedings conducted against the Bank and Group companies, based on the criteria described in Note 1 D 16 to the financial statements. In addition, Note 26 C to the financial statements describes the disclosure regarding the total exposure in respect of claims that have been assessed, in whole or in part (in respect of the relevant part), as "reasonably possible". It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.

See Note 26 C to the financial statements for details of material legal actions pending against the Bank and against other companies in the Group. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof".

IMPAIRMENT OF AVAILABLE FOR SALE SECURITIES

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale securities, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the statement of profit and loss in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses (OTTI) are taken directly to the statement of profit and loss.

The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said securities.

For the purpose of determining the nature of losses accumulated in respect of securities as above, managements of the Bank and/or of the relevant subsidiaries, base themselves on the security's various characteristics on which losses have been accumulated and on the company that had issued this security, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the security was lower than its cost, the credit rating of the security and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc. For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments and the assumptions and features upon which they are based may have a significant effect upon the financial statements.

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

Directives of the Supervisor of Banks. The Bank implements the directive of the Supervisor of Banks regarding Measurement of fair value based on the U.S. financial accounting standard FAS 157. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

The Bank implements accounting standard ASU 2011-04, "Measurement of fair value". The update introduces amendments to FAS 157 (ASC 820) required for the uniform definition for the measurement of fair value in generally accepted accounting principles in the U.S. (U.S. GAAP) and in international financial reporting standards (IFRS).

According to the update the basic assumption of "in-use" is not implemented with respect to financial instruments. Nevertheless, financial assets and financial liabilities held and managed within the framework of a portfolio, are measured, under certain circumstances, according to fair value, using a price that would have been received or paid had a net position in groups of financial assets or financial liabilities as above, been sold or transferred.

In addition, according to the update, the measurement of fair value of financial instruments is made without taking into account the blockage factor both as regards financial instruments assessed according to all levels.

Furthermore, consistently with the measurement of fair value of financial liabilities, the fair value of items classified to capital is measured using quoted prices of such items (or of similar instruments) which are traded as assets.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.

As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 16.5% at December 31, 2016, compared with 15.4% at December 31, 2015.

The income from assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 476 million in 2016, compared to NIS 445 million for 2015.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank's dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model, and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank's dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc.

Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Division in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Division, in which a representative of the Accounting Division also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within the framework of the same program, the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Note 28 and 34 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in 2016, to a loss of NIS 2 million, compared to a profit of NIS 1 million in 2015.

Details regarding the adjustment of the assets and liabilities in respect of derivative instruments

	December 31, 2016	December 31, 2015
	in NIS millions	
Assets in respect of derivative instruments	3,304	3,236
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(10)	(10)
Liabilities in respect of derivative instruments	3,598	3,508
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(4)	(6)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

EMPLOYEE RIGHTS

U.S. accounting principles as regards employee rights are being applied by the Bank as from January 1, 2015. In this framework, among other things, the Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, as detailed hereunder.

For additional details regarding the Directive in the matter of the adoption of U.S. accounting principles relating to employee rights, see Note 1 C 5 (1).

Computation of the capitalization coefficient in accordance with the instruction. The Directive notes that the Supervisor of Banks has reached the conclusion that a deep market for high quality corporate bonds does not exist in Israel. Accordingly, the discount rate in respect of employee benefits shall be computed on the basis of the return on Israeli government bonds with the addition of an average spread on AA and above (international) rating of corporate bonds at date of reporting. For practical reasons, it has been determined that the spread shall be fixed according to the difference between the rates of return to maturity, according to periods to maturity, on corporate bonds in the U.S. with an AA and above rating, and the rates of return to maturity, for the same periods to maturity, on U.S. government bonds, and all at date of reporting.

Certain aspects regarding the implementation of the new accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management.

The limitations determined by the Management, which have been implemented as from the financial statements as of June 30, 2014, are detailed in Note 1 D 15.6 to the financial statements. The limits set by the Bank’s Management, which are being implemented with effect from the financial statements as of December 31, 2016, are detailed in Note 1 D 15.6 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated – 1.8% per year and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. In accordance with the instructions of the Supervisor of Banks, the actuarial computation was based on a computed discount rate, as detailed above.

Furthermore, implementation of the new accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities in respect of which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction (see above);
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of profit and loss in accordance with the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual profit, including in respect of changes in the assessment of the average service period).

Long service (Jubilee) awards and post retirement benefits. Some employees of the Bank are entitled to long-service bonuses ("Jubilee Bonuses") comprising several monthly salaries and additional paid vacation days, at the end of 20, 30 and 40 years of employment with the Bank. Bank employees are also entitled to certain benefits subsequent to their retirement from the Bank. These liabilities depend on several conditions that have to materialize in the future.

The Supervisor of Bank requires the Bank to base the provision for these liabilities on an actuarial computation and to present it at discounted value. The actuarial computation is based on several parameters mentioned above.

2016 efficiency plan. For details, see “Efficiency of the banking industry – 2016 efficiency plan” above and Note 23 J to the financial statements.

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2016.

The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management.

It should be noted that, in the framework of the actuarial computation performed and the computation of the cost of the efficiency plan, a retirement was assumed in accordance with the retirement plan that had been approved. It should be noted that changes, if any, in the actual scope of retirements and/or in the characteristics of the retiring population (seniority, gender and salary level), compared to those assumed as aforesaid, could necessitate the revision of the actuarial assessment in the future.

The actuarial opinion also includes a 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.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[3] 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 Bank’s 2016 Annual Report (This Report).

Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in remuneration, on the liability for the forecasted benefit, before the tax effect, see Note 23 to the financial statements, item 3.2.

Mercantile Discount Bank. For details regarding the voluntary retirement plan at MDB, see Note 23 K to the financial statements. For details regarding provisions made by MDB regarding the liabilities in respect of severance pay, see Note 1 C 5 (2) to the financial statements.

DEFERRED TAXES

Deferred taxes are recorded in respect of temporary differences between the value of assets and liabilities in the balance sheet and their value for tax purposes.

Deferred tax assets in respect of timing differences are recorded only if it is probable that tax savings will accrue upon reversal of the difference and deferred tax assets in respect of carry forward losses for tax purposes are recorded only if the realization of the tax asset in the foreseeable future is more likely than not.

Accordingly, when deferred tax assets are being recorded, the Bank is required to perform assessments and estimates as to the probability and timing of realization of these assets in the future. For further details see Note 1 D 17 and Note 8 to the financial statements.

EXAMINATION OF IMPAIRMENT IN VALUE OF NON-FINANCIAL ASSETS

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.

Impairment of costs of internal development of computer software. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States.

For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.

The written down balance of in-house software development costs amounted at December 31, 2016 to NIS 534 million (December 31, 2015: NIS 544 million).

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

CONTROLS AND PROCEDURES

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.

In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.

Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.

During 2016, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.

Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Change of the COSO model. Internal control over financial reporting was based on criteria formulated within the integrated framework of the COSO of 1992. In December 2014, the COSO model was updated to the COSO 2013 model.

The Bank, ICC, MDB and IDB New York have completed the preparation for adoption of the new COSO model and the effectiveness of controls that had been updated in this respect, was tested during 2016. Effectiveness tests have shown immaterial gaps that would be dealt with in the course of 2017.

CHANGES IN INTERNAL CONTROL

During the fourth quarter ended on December 31, 2016, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank’s employees and employees of the Group’s companies and their management for their work towards the advancement of the Bank and the Group.

March 27, 2017	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer

INTERNAL CONTROL OVER FINANCIAL REPORTING

CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2016 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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.

March 27, 2017

Lilach Asher-Topilsky,
President & Chief Executive Officer

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2016 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' 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 internal control 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) Designed 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; and
   (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.
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.

March 27, 2017

Joseph Beressi
Senior Executive Vice President
Chief Accountant

Report of the Directors and Management on internal control over financial reporting

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report").
The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of December 31, 2016, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2016 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 121, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016.

Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 27, 2017

FINANCIAL STATEMENTS

Somekh Chaikin

Report of the independent auditors to the shareholders of Israel Discount Bank Ltd. – In accordance with the public reporting directive of the Supervisor of Banks regarding internal control over financial reporting

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a bank over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a bank over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by COSO.

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Ziv Haft is a member of BDO

Somekh Chaikin

We have also audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2016 and 2015, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2016, and our report dated March 27, 2017, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C items 12.6 and 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 27, 2017

Somekh Chaikin

Auditor's report to the Shareholders' of Israel Discount Bank Ltd. – Annual Financial Statements

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and its consolidated subsidiaries: Balance sheets as at December 31, 2016 and December 31, 2015, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2016. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2016 and 2015, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2016, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C items 12.6 and 13 concerning motions for the approval of certain lawsuits as class action suits against the Bank and investee companies.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 27, 2017, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 27, 2017

Ziv Haft
Certified Public Accountants (Isr.)

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31

		Consolidated		
	Notes	2016	2015	2014
		in NIS millions		
Interest income		5,671	5,267	5,736
Interest expenses		1,102	1,042	1,518
Interest income, net	2	4,569	4,225	4,218
Credit loss expenses	13,31	469	187	164
Net interest income after credit loss expenses		**4,100**	**4,038**	**4,054**
Non-interest Income				
Non-interest financing income	3	754	363	549
Commissions	4	2,585	2,611	2,586
Other income	5	100	79	18
Total non-interest income		**3,439**	**3,053**	**3,153**
Operating and other Expenses				
Salaries and related expenses	6	3,416	3,396	4,086
Maintenance and depreciation of buildings and equipment	16	1,067	1,158	1,161
Other expenses	7	1,331	1,171	1,167
Total operating and other expenses		**5,814**	**5,725**	**6,414**
Profit before taxes		1,725	1,366	793
Provision for taxes on profit	8	753	568	271
Profit after taxes		972	798	522
Bank’s share in profit of affiliated companies, net of tax effect	15	15	9	27
Net profit:				
Before attribution to non-controlling rights holders		987	807	549
Attributed to the non-controlling rights holders		(82)	(57)	(44)
Net Profit Attributed to the Bank's Shareholders		**905**	**750**	**505**
Earnings per share of NIS 0.1 par value (in NIS)	9,24			
Total earnings per share attributed to the Bank's shareholders		**(1)0.84**	**0.71**	**0.48**

Footnote:

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

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

Date of approval of the financial statements:	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant

March 27, 2017

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

		The Bank		
	Notes	2016	2015	2014
		in NIS millions		
Interest income		3,186	2,912	3,448
Interest expenses		669	640	1,023
Interest income, net	2	2,517	2,272	2,425
Credit loss expenses	13,31	232	75	99
Net interest income after credit loss expenses		**2,285**	**2,197**	**2,326**
Non-interest Income				
Non-interest financing income	3	321	221	427
Commissions	4	1,189	1,209	1,224
Other income	5	135	82	68
Total non-interest income		**1,645**	**1,512**	**1,719**
Operating and other Expenses				
Salaries and related expenses	6	2,163	2,064	2,742
Maintenance and depreciation of buildings and equipment	16	751	809	818
Other expenses	7	481	422	391
Total operating and other expenses		**3,395**	**3,295**	**3,951**
Profit before taxes		535	414	94
Provision for taxes on profit	8	295	207	40
Profit after taxes		240	207	54
Bank’s share in profit of affiliated companies, net of tax effect	15	665	543	451
Net Profit attributed to bank's shareholders		**905**	**750**	**505**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[1]

	For the year ended December 31,		
	2016	2015	2015
	in NIS millions		
Net profit before attribution to non-controlling rights holders	987	807	549
Net profit attributed to non-controlling rights holders	(82)	(57)	(44)
Net profit attributed to the Bank's shareholders	**905**	**750**	**505**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale securities at fair value	(126)	(192)	190
Financial statements translation adjustments, net	(44)	36	336
Adjustments of liabilities in respect of employee benefits[2]	(239)	50	(37)
Net profit in respect of cash flows hedge	2	5	5
Other comprehensive income (loss), before taxes	**(407)**	**(101)**	**494**
Effect of attributed taxes	111	69	(94)
Other comprehensive income (loss), before attribution to non-controlling rights holders, after taxes	(296)	(32)	400
Other comprehensive loss attributed to non-controlling rights holders	(4)	(1)	-
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**(292)**	**(31)**	**400**
Comprehensive income, before attribution to non-controlling interests holders	691	775	949
Comprehensive income, attributed to non-controlling interests holders	(78)	(56)	(44)
Comprehensive income, attributed to the Bank's shareholders	**613**	**719**	**905**

Footnotes:

(1) See Note 10.

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

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

BALANCE SHEET AS AT DECEMBER 31

		Consolidated		The Bank	
	Notes	2016	2015	2016	2015
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	29,311	28,518	24,596	21,824
Securities (of which: 4,859, 4,725, 4,103, 3,863 respectively, pledged to lenders)	12,27	38,818	38,935	21,157	22,793
Securities borrowed or purchased under resale agreements		440	279	440	279
Credit to the public	13,31	142,904	129,268	92,070	81,532
Provision for credit loss	13,31	(2,144)	(2,052)	(1,377)	(1,311)
Credit to the public, net		140,760	127,216	90,693	80,221
Credit to Governments	14	737	515	732	502
Investment in investee companies (consolidated – affiliated companies)	15	157	144	8,667	8,193
Buildings and equipment	16	2,295	2,175	1,636	1,574
Intangible assets and goodwill	17	160	142	-	-
Assets in respect of derivative instruments	28	3,283	3,208	3,140	3,068
Other assets	18	3,589	3,696	2,119	2,170
Noncurrent assets held for sale	18A	27	432	25	21
Total Assets		**219,577**	**205,260**	**153,205**	**140,645**
Liabilities and Equity					
Deposits from the public	19	172,318	(2)157,875	123,353	112,779
Deposits from banks	20	5,342	3,907	1,706	1,673
Deposits from the Government		303	(2)306	68	97
Securities loaned or sold under repurchase agreements		3,543	3,833	-	-
Subordinated capital notes	21	8,498	9,570	3,497	3,598
Liabilities in respect of derivative instruments	28	3,570	3,475	3,401	3,274
Other liabilities(1)	22	11,067	10,985	6,668	5,936
Liabilities held for sale	18A	-	1,675	-	-
Total liabilities		204,641	191,626	138,693	127,357
Equity capital attributed to the Bank's shareholders	24	14,512	13,288	14,512	13,288
Non-controlling rights		424	346	-	-
Total equity		14,936	13,634	14,512	13,288
Total Liabilities and Equity		**219,577**	**205,260**	**153,205**	**140,645**

Footnotes:

(1) Of which NIS 195 million and NIS 206 million in the consolidated, and NIS 148 million and NIS 159 million in the bank, as of December 31, 2016, and December 31, 2015, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 (E).

(2) Reclassified - see Note 1 G.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Balance at December 31, 2013
Net Profit for the year
Sale of shares to non-controlling interests holders[1]
Dividend to non-controlling interests holders
Other comprehensive loss, net after tax effect
Balance at December 31, 2014
Net Profit for the year
Acquisition of rights that do not confer control[1]
Other comprehensive income after tax effect
Balance at December 31, 2015
Changes in 2016:
Net Profit for the year
Transactions with controlling shareholders
Issue of Shares[2]
Receipts on account of option warrants[2]
Exercise of options to Shares[2]
Other comprehensive loss after tax effect
Balance at December 31, 2016

Footnotes:

(1) See Note 36 A.

(2) See Note 24 D.

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

	Capital reserves							
Paid up share capital	Share premium	Other reserves	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling rights holders	Total equity
in NIS millions								
665	3,434	212	4,311	(474)	7,865	11,702	297	11,999
-	-	-	-	-	505	505	44	549
-	-	-	-	-	(8)	(8)	91	83
-	-	-	-	-	-	-	(42)	(42)
-	-	-	-	400	-	400	-	400
665	**3,434**	**212**	**4,311**	**(74)**	**8,362**	**12,599**	**390**	**12,989**
-	-	-	-	-	750	750	57	807
-	-	-	-	-	(30)	(30)	(100)	(130)
-	-	-	-	(31)	-	(31)	(1)	(32)
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**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	987	807	549	905	750	505
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed profits of investee companies (consolidated - affiliated)	(18)	(9)	(27)	(725)	(584)	(457)
Depreciation of buildings and equipment (including impairment in value)	426	512	527	296	341	360
Provision for impairment of securities	18	108	122	16	102	67
Credit loss expenses	994	780	807	601	519	568
Gain on sale of credit portfolio, net	(14)	(13)	-	(12)	(14)	-
Gain on sale of available-for-sale and held to maturity securities, net	(219)	(284)	(388)	(119)	(149)	(297)
Gain on the sale of rights in Visa Europe	(360)	-	-	(97)	-	-
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	9	(14)	(37)	9	(12)	(32)
Gain on realization of buildings and equipment	(80)	(50)	(5)	(72)	(17)	(5)
Net deferred taxes	4	173	(28)	19	147	(88)
Severance pay – increase in execess of provision over the deposits	198	78	144	159	43	97
Net change in current assets:						
Deposits with banks	140	2,291	(1,127)	466	(130)	228
Credit to the public, net	(11,968)	(2)(4)(9,332)	(2)(4)(4,598)	(8,739)	(2)(4)(4,151)	(2)(4)1,142
Credit to the Government	(115)	(4)995	(4)183	(125)	(4)985	(4)177
Securities borrowed or purchased under resale agreements	(161)	187	(364)	(161)	187	(364)
Assets in respect of derivative instruments	(75)	1,388	(516)	(72)	1,315	(371)
Trading securities	33	(1,554)	804	(790)	(760)	778
Other assets	237	4	(1,094)	144	52	(182)
Effect of changes in exchange rate on cash and cash equivalent balances	(110)	(99)	262	(88)	(76)	334
Accrual differences included in investment and financing activities	845	218	(1,218)	381	148	(218)
Net change in current liabilities:						
Deposits from banks	1,435	(1,640)	1,332	33	(1,800)	1,136
Deposits from the public	13,881	(3)6,712	(3)3,958	10,126	2,383	(183)
Deposits from the Government	(3)	(3)(50)	(3)(68)	(29)	(51)	(68)
Securities borrowed or purchased under resale agreements	(290)	(151)	340	-	-	-
Liabilities in respect of derivative instruments	95	(998)	(420)	127	(956)	(461)
Other liabilities	(447)	(97)	1,339	293	(430)	480
Adjustments in respect of exchange rate differences on current assets and liabilitiest	(18)	(1)24	(1)396	-	-	-
Net Cash Flows from (to) Operating Activities	**5,424**	**(14)**	**873**	**2,546**	**(2,158)**	**3,146**

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) Classification between purchased credit portfolios and credit to the public, net, following the separate presentation of purchased credit portfolios.
(3) Reclassified - see Note 1 G.
(4) The classification to credit to governments of certain of the amounts in respect of the sale or purchase of credit, presented in the past as credit to the public.
The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Cash Flows from Investing Activities						
Acquisition of held-to-maturity bonds	(184)	(738)	(102)	-	(738)	-
Proceeds from redemption of held-to-maturity bonds	794	539	579	-	157	226
Acquisition of available-for-sale securities	(14,608)	(17,836)	(12,697)	(7,486)	(12,062)	(8,219)
Proceeds from sale of available-for-sale securities	6,557	12,019	11,627	4,975	7,624	7,129
Proceeds from sale of rights in Visa Europe	286	-	-	77	-	-
purchased credit portfolios	(1,194)	(1)(1,123)	(1)(597)	(1,194)	(1)(1,123)	(1)(597)
Gain on sale of credit portfolio	847	1,290	123	839	897	115
Proceeds from redemption of available-for-sale securities	5,071	6,064	7,157	3,096	3,720	3,783
Business combinations - see Annex B	9	-	-	-	81	-
Proceeds of the sale of investments in investee companies and dividend	7	6	40	69	81	491
The sale of operations of an investee company	(2)(1,272)	-	-	-	-	-
Acquisition of buildings and equipment	(533)	(395)	(329)	(343)	(245)	(187)
Proceeds from sale of buildings and equipment	113	101	11	96	20	11
Net Cash Flows from (to) Investing Activities	**(4,107)**	**(73)**	**5,812**	**129**	**(1,669)**	**2,752**
Cash Flows from Financing Activities						
Acquisition of shares in consolidated companies	-	(130)	-	-	-	-
Issuance of subordinated debt notes	282	407	-	29	407	-
Redemption of subordinated debt notes	(1,355)	(1,428)	(1,066)	(162)	(228)	(267)
Issue of Shares	472	-	-	472	-	-
Receipts on account of option warrants	97	-	-	97	-	-
Realization of stock options	39	-	-	39	-	-
Dividend to non-controlling rights holders	(3)	-	(42)	-	-	-
Net cash flows from (to) Financing Activities	**(468)**	**(1,151)**	**(1,108)**	**475**	**179**	**(267)**
Increase (decrease) in cash	849	(1,238)	5,577	3,150	(3,648)	5,631
Cash balance at beginning of period	27,886	29,013	23,765	21,063	24,635	19,338
Effect of changes in exchange rate on cash and cash equivalent balances	84	(3)111	(3)(329)	88	76	(334)
Cash balance at end of period	**28,819**	**27,886**	**29,013**	**24,301**	**21,063**	**24,635**
Interest and taxes paid and/or received						
Interest received	5,646	5,653	6,372	3,472	3,628	3,961
Interest paid	(1,231)	(1,503)	(2,191)	(897)	(1,115)	(1,546)
Dividends received	19	32	107	62	94	441
Taxes on income paid	(776)	(439)	(440)	(366)	(123)	(290)
Taxes on income received	302	56	57	262	-	-

Footnote:

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

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

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

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

APPENDIX A – BUSINESS COMBINATIONS[(1)]

	2016	2015	2014
	in NIS millions		
Net assets	(22)	-	-
Goodwill	(18)	-	-
Disregarding non-controlling rights	49	-	-
Business combinations	**9**	**-**	**-**

Footnote:
(1) See note 15 f.

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

	2016	2015	2014
	in NIS millions		
The Bank:			
Income from sale of rights in Visa Europe	20	-	-
Purchase of fixed assets	42	15	11
Lending of securities	2,073	(614)	(7)
Consolidated:			
Income from sale of rights in Visa Europe	74	-	-
Purchase of fixed assets	45	21	15
Lending of securities	2,315	(927)	(121)

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

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 27, 2017.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including

interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt. These principles have been determined by the bank supervisory authorities in the U.S., the U.S. Securities and Exchange Commission, the U.S. Financial Accounting Standards Board and additional factor in the U.S., and which are being implemented according to a hierarchy determined by the U.S. Financial Accounting Standard FAS 168 (ASC 105-10), the "codification of accounting standards by the U.S. Financial Accounting Standards Board and the hierarchy of Generally Accepted Accounting Principles". In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S., shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" - within its meaning in section 80 of the Reporting to the Public Directives.

"Related party" – within its meaning in section 80 of the Reporting to the Public Directives.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Affiliated companies" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and affiliated companies.

"CPI" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

"Adjusted amounts" - Amounts in nominal historical terms adjusted to the CPI of December 2003, in accordance with the provisions of Opinions Nos. 23 and 36 of the Institute of Certified Public Accountants in Israel;

"Adjusted financial reporting" - Financial reporting in adjusted values based on changes in the general purchasing power of the Israeli currency, in accordance with the provisions of Opinions of the Institute of Certified Public Accountants in Israel.

"Reported amounts" - Adjusted amounts to date of transition (December 31, 2003), as defined in Accounting Standard No. 12, "Discontinuance of Adjustment of Financial Statements" (as amended) of the Israel Accounting Standards Board, together with nominal amounts which were added subsequent to date of transition, and less amounts which were deducted after that date.

"Cost" - cost in reported amounts.

"Overseas extensions " - consolidated subsidiaries and branches abroad.

"Functional currency" - the currency of the principal business environment in which the Bank operates: generally, it is the currency of the environment in which the corporation generates and spends most of the cash.

"Presentation currency" - the currency in which the financial statements are presented.

"Fair value" – the price that would have been received on the sale of an asset or the price that would have been paid upon the transfer of a liability in an orderly transaction between participants in the market at date of measurement, see also item D 7 below.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1. Principles of financial reporting

The Bank's financial statements are prepared according to Generally Accepted Accounting Principles in Israel (Israeli GAAP) and according to the instructions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

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

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see item D 1.2, below.

3. Basis of measurement

The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available for sale;
- Liabilities in respect of share based payments to be settled in cash;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in affiliated companies.

The value of non-monetary assets and capital items measured by the historical cost basis, has been adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy had been considered a hyper-inflationary economy. Beginning with January 1, 2004, the Bank prepares its financial statements in reported amounts.

4. Use of estimates

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, 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 estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Bank's Management is required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Bank's Management bases itself upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. Changes in assessment

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

The Bank's Management estimated that following approval of the said Act, there will be an increase in number of cases of early retirement, requiring the use of the special fund created in 2011, for exceptional retirement cases of employees belonging to the said group, and which is used by the Bank for early retirement of employees in exceptional cases, including cases within the framework of the implementation of the Bank's strategic plan of August 2014. In accordance with the said estimate, in the financial statements as of March 31 2016, an additional amount of NIS 50 million has been allocated to the fund (NIS 60 million, including payroll tax; see also Note 23 J below). Employees belonging to the said group had been included in the framework of the efficiency plan for 2016, and respectively, the said increase is included in the cost of the plan.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Provisions in respect of the liabilities for the payment of severance pay – Mercantile Discount Bank. Whereas the retirement terms offered to employees under the present plan (see Note 23 K) exceed those in practice at MDB in the past (and which may, therefore, have implications on retirement terms applying in the future to other groups of employees), this bank has revised the provisions in respect of the liability for severance pay payable to other groups of employees, which were not included in the present retirement plan, by an amount of NIS 37 million (before taxes).

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

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

(1) Reporting according to U.S. generally accepted accounting principles regarding business combinations, consolidation of financial statements and investments in investee companies (see item 1 below);

(2) Reporting according to U.S. generally accepted accounting principles regarding intangible assets (see item 2 below).

(3) Regulatory and managerial operating segments (see item 3 below).

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

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

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

(5) Restructuring of a troubled debt (see item 5 below).

Following is a description of the nature of changes in the accounting policy and a description of the manner of initial implementation and its effect, if at all:

(1) Business combinations, consolidation of financial statements and investments in investee companies. The Supervisor of Banks published a circular on June 14, 2015, in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP as regards business combinations, consolidation of financial statements and investments in investee companies". According to the circular, it is required to implement the U.S. GAAP in these matters in terms of the codification: Topic 805 regarding "business combinations"; Topic 810 regarding "consolidation"; Sub-Topic 350-20 regarding "intangibles – goodwill and other" as regards the accounting treatment of impairment of goodwill acquired in business combinations; and Topic 323 regarding "investments – equity method and joint ventures".

The circular withdraws the transitional instruction that permitted not to make adjustments to the accounting policy relating to matters of core banking business, implemented by a non-financial affiliated company, these adjustments being required in order to adjust the accounting policy of such affiliated company to that of the banking corporation. Instead, the circular introduced a new transitional instruction which permits a banking corporation, in the years 2016-2017, to make no adjustments to the accounting policy implemented by a non-financial affiliated company, which prepares its financial statements in accordance with IFRS.

The initial implementation and its effect. The Bank implements the said rules as from January 1, 2016. The implementation of the instruction did not have material effect.

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

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

The initial implementation and its effect. The Bank implements the said rules as from January 1, 2016. The implementation of the instruction did not have material effect.

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

The main changes are:

- Additional requirement for disclosure of "regulatory operating segments" was added, in accordance with the definition of the Supervisor of Banks. The format of disclosure regarding regulatory operating segments refers to the following segments: private banking, households, one-man and small businesses, medium businesses, large businesses, institutional bodies and financial management;

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- New definitions were added clarifying which customers are to be included in each segment;
- A new requirement was added for a separate disclosure of the "financial management" segment.

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

The new rules took effect gradually as from the financial statements for the year 2015. Extension of the reporting format up to the full format is made as follows:

- The disclosure requirement in the 2015 statements applies to balance sheet data regarding regulatory operating segments, as defined in the new instructions. Furthermore, no disclosure is required for the financial management segment;
- Full disclosure according to the new rules is required as from the financial report for the first quarter of 2016, excluding disclosure of the financial management segment. The comparative data were adjusted retroactively. It is permitted to present in the financial statements for 2016 comparative data for one year only in respect of the Note regarding the regulatory operating segments. For the purpose of presentation of the comparative data it would be possible to rely on the classification of customers to regulatory operating segments as of January 1, 2016;
- Implementation in full of the guidelines of the circular is required as from the financial statements for the first quarter of 2017.

The initial implementation and its effect. The implementation of the instruction did not have material effect, save for the manner of presentation and disclosure. Notes 29 and 30 have been modified in order to include the required disclosure, subject to transitional instructions as detailed above.

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

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

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

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

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

The initial implementation and its effect. The Bank had implemented the provisions of the circular by way of early application, with effect as from July 1, 2016. The implementation of the instruction did not have material effect.

D. ACCOUNTING POLICY APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

1. Foreign currency and linkage

1.1 Assets (except for investments in investee companies, buildings and equipment) and liabilities are stated in the balance sheet as follows:

- Those in foreign currency or linked thereto, are presented at representative exchange rates published by the Bank of Israel at the balance sheet date, or at a different date, in accordance with the terms of the relevant transactions.
- Those linked to the CPI or to other indices, are presented in the balance sheet according to the latest known index on the balance sheet date.
- Those optionally linked, are stated in accordance with their related terms ruling on the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 The effects of changes in foreign exchange rates:

Foreign currency transactions. Transactions in foreign currency are translated into the Bank's relevant functional currencies and its extensions on the basis of the exchange rates ruling at dates of the transactions. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date. The exchange rate difference in respect of financial items is the difference between the amortized cost stated in the functional currency at the beginning of the year, adjusted to the effective interest and payments during the year, and the amortized cost stated in foreign currency and translated using the year-end exchange rate.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Exchange rate differences stemming from translation to the functional currency are recognized in the statement of profit and loss, except for the differences which are recognized in other comprehensive income, stemming from the translation of capital financial instruments classified as available for sale (except in cases of impairment when translation differences that had been recognized in other comprehensive income are reclassified to the statement of profit and loss), hedging of cash flow, in respect of the effective part of the hedge and overseas activity.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the profit or loss from the realization of the foreign operation is recognized.

Foreign banking extensions. Until 1994, certain foreign banking extensions had been classified as autonomous units and exchange differences on translation of their operations had been reflected directly in the equity as part of the translation adjustments reserve. Starting with 1995, in accordance with guidelines of the Supervisor of Banks, foreign banking extensions have been classified as "long-arm operations" (foreign operations the functional currency of which is identical to the bank's functional currency).

On February 14, 2012, the Supervisor of Banks published a circular letter in the matter of "The functional currency of extensions operating overseas", which included criteria determined by the Supervisor of Banks designed to determine the functional currency of a bank overseas extension. In determining the functional currency that is not NIS, a banking corporation is required to verify the existence/absence of each one of the criteria detailed below:

- The principal environment in which the extension produces and expends cash is a foreign currency environment, while the shekel operations of the extension are marginal;
- Autonomous attraction of customers by the extension – business transacted by the extension with banking corporation customers and/or parties related to them and/or parties referred to the extension by the banking corporation, is insignificant;
- The activity of the extension with the banking corporation and/or with parties related to the banking corporation is insignificant. Furthermore, there is no significant dependence of the extension on financing sources provided by the banking corporation or by parties related to the banking corporation;
- In essence, the activity of the extension is independent and is self sufficient and does not expand or complement the domestic activity of the group. Furthermore, the extension transacts its business and operations having a significant level of autonomy.

Where one of the said criteria does not distinctly exist, this would indicate that the extension should be treated as a foreign operation the functional currency of which is the shekel. In other situations, the decision will have to be made based on an examination of all the criteria.

The Bank has re-examined the classification of its overseas banking extensions based on the new criteria. In light of the new examination, the banking extension Bancorp was classified as from January 1, 2012, as foreign operations the functional currency of which is different from the shekel. The change in classification was treated by way of from now onwards.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.3 THE FOLLOWING ARE THE REPRESENTATIVE RATES OF EXCHANGE AND THE CPI AND THEIR ANNUAL RATES OF CHANGE:

				Annual rate of change		
	2016	2015	2014	2016	2015	2014
CPI (in points):						
Known at balance sheet month	106.1	106.4	107.4	(0.3)	(0.9)	(0.1)
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.845	3.902	3.889	(1.5)	0.3	12.0
Euro	4.044	4.247	4.725	(4.8)	(10.1)	(1.2)

2. Principles of consolidation and the implementation of the equity method

2.1 Business combinations. The Bank applies the "acquisition method" in respect of all business combinations.

Date of acquisition is the date on which the purchaser obtains control over the acquired entity. The Group controls the acquired entity once it has the ability to direct the policy and management of the acquired entity, including by way of ownership or agreement. Potential rights are not taken into account when examining control.

The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized in respect of any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

Subsidiary companies. These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

Non-controlling rights. These are rights representing the equity of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling rights are measured at fair value at date of the business combination.

Allocation of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling rights will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are being treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling rights is reflected directly in the equity.

2.2 Investments in affiliated companies. Affiliated companies are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in affiliated companies are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of affiliated companies treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives) implemented by an affiliated company, which applies the IFRS rules.

Loss of material influence. The bank discontinues the use of the equity method as from the date on which material influence no longer exists and treats the investment as a financial asset.

2.3 Transactions eliminated upon consolidation. Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with affiliated companies were eliminated against the investment according to the rights of the Group in the affiliated companies. Unrealized losses were eliminated in the same manner in which profits have been eliminated, so long as no evidence of impairment exists.

2.4 The treatment in the Bank's stand alone financial statements. In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks. The Bank's standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

3.2 Commission income in respect of the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.5 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.6 Other income and expenses are recognized on an accrual basis.

3.7 Measurement of interest income (FAS 91)

Commissions regarding the setting-up of credit facilities. Commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

Credit allocation commissions. Credit allocation commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines the materiality of the changes in terms of the loan. Accordingly, the Bank examines whether the present value of future cash flows under the revised terms of the loan differs by at least 10% from the present value of the remaining cash flows under the existing terms, or if the transaction involve a change in the currency of the loan. In such cases, the refinanced loan is treated as a new loan, and accordingly the outstanding commissions not yet amortized as well as early repayment commissions collected from the customer in respect of the change in the terms of credit are recognized immediately in the statement of profit and loss. Otherwise, the said commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

Early repayment commission. Early repayment commissions charged in respect of early repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years, or over the remaining period of the loan, whichever is shorter. Commissions charged in respect of early repayments made subsequently to January 1, 2014, are recognized immediately as part of interest income.

4. Impaired debts, credit risk and allowance for credit loss

4.1 General. In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies, as from January 1, 2011, the U.S. accounting standards in this matter (ASC 310) and the positions of the bank’s supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, since that date, the Bank is implementing the guidelines of the Supervisor of Banks regarding "Dealing with problem debts". Also, since January 1, 2013, the Bank implements the instructions of the Supervisor of Banks in the matter of "Update of the disclosure regarding the credit quality of debts and the allowance for credit losses".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit to the public and other debt balances. The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under resale agreements, credit to the public, credit to governments, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date.

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Reinstatement of an impaired debt as an unimpaired debt. An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an allowance at a level adequate to cover anticipated losses relating to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, unutilized credit facilities and guarantees). The allowance covering credit losses anticipated is assessed in one of two ways: "specific allowance" or "group allowance".

The said examination of debts for the purpose of determining the allowance and the treatment of the debt, is consistently applied in respect of all debts in accordance with the quantitative level and the Bank's credit management policy, and no changes are being made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made as stated above.

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 500 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", and in accordance with instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, within the range of years along the period beginning on January 1, 2011, and ending on the reporting date. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, For the purpose of determining the proper amount of the allowance, the Bank takes into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrear and impaired balances and the effect of changes in the credit concentration.

In accordance with the directives of the Supervisor of Banks, the Bank has formed a measurement method for the allowance on a group basis, which takes into account both the rate of past losses and the adjustments in respect of the relevant environmental factors. With respect to credit granted to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the outstanding balance of the non-problematic credit at each reporting date, with reference to the average rates of loss in the range of the years. Excluded from the above is credit created by bank credit card transactions bearing no interest charge.

Starting with January 1, 2011, the Bank is not required to maintain general, supplemental and special allowances for doubtful debts, though it continues to calculate the supplemental allowance and verifies that in any event the amount of the allowance on a group basis at the end of each reporting period is not lower than the amount of the general and supplemental allowances that would have been required at that date, gross before tax.

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach".

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank has formed a policy designed to ensure that it abides by the requirements, and that as from June 30, 2013, the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Income recognition. On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of profit and loss but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt that has formally undergone troubled debt restructuring and following the restructure it is reasonably certain that the debt would be repaid and would perform in accordance with its new terms, shall be treated as an impaired debt that accrues interest income. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see item 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over. These debts are subject to assessment methods of an allowance for credit losses, which ensure that the Bank's profit is not inclined upwards. Commission charged on arrears in these debts are recognized as income on date on which the Bank is entitled to receive it, on condition that collection thereof is reasonably certain.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting write-off. The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (defined as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (over 150 consecutive days in arrear) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Notwithstanding that stated above, the need for an immediate write-off is examined in respect of loans examined on a group basis and classified as impaired due to the restructuring of a troubled debt. In any event, the accounting write-off of such debts is made no later than the date on which the debt was sixty days or over in arrear, with reference to the restructuring terms.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

The treatment of structured debts and of following debt restructuring. Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, are classified as troubled debts and assessed on a specific basis for the purpose of performing the allowance for credit losses.

As a general rule, a restructured troubled debt continues to be measured and classified as an impaired debt until repaid in full. Notwithstanding, under certain circumstances, when a debt had undergone troubled debt restructuring, and at a later date the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is not required to treat the debt as a restructured troubled debt if the following two conditions apply:

- The debtor is no longer in financial difficulties at date of the following restructure;
- According to the terms of the following restructure, no waiver had been granted to the debtor (including no waiver of principal amounts on a cumulative basis since the original date of the loan).

A debt as above, that has undergone a following restructure and the classification thereof as an impaired debt has been removed, is to be assessed on a group basis for the purpose of determining the allowance for credit losses, and the recorded amount of the debt has not changed upon the following restructure (except where cash had been received or paid).

If in following periods, a debt as above has been examined on a specific basis and is found to require the recognition of impairment in value or where the restructure of a troubled debt is applied, the bank reclassifies the debt as impaired and treats it as a restructured troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest. A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as a debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

4.2 **FAQ file in the matter of impaired debts.** See item C 5 (7) above.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified into three portfolios, as follows:

(a) "Held to maturity bonds" - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) "Trading securities" - securities which are held with the intention of selling them in the short term except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. Gains or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(c) "Available for sale securities" - securities not classified under the two previous categories. Securities available for sale are stated at their fair value on the balance sheet date, except for shares the fair value of which is not readily available, which are stated at cost less a provision for impairment in value not of a temporary nature which is recorded in the statement of profit and loss. Unrealized gains or losses resulting from the adjustment to fair value, net of the related tax effect, are recorded as a separate line item in the equity within the framework of other comprehensive income.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the statement of profit and loss.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, whether the impairment of securities classified to the available-for-sale portfolio and to the held to maturity portfolio is of an other than temporary nature.

The review is based on the following considerations:

- The ratio of loss to cost/depreciated cost (while examining developments subsequent to balance sheet date);
- The period in which the fair value of the security is lower than its cost;
- The rate of yield to redemption in the case of bonds;
- The credit rating of the security, including changes in its rating;
- In the case of shares - events of reduction due to the distribution of dividends or its cancellation;
- In the case of bonds - Events of default in the payment of periodic interest in accordance with the terms of the bond, forecast of changes in the expected cash flow from the bond;
- Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;
- The intent and ability of the Bank and its relevant subsidiary to continue holding the securities until such time that the expected recovery of the fair value of the securities occurs or until redemption thereof;
- Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates.

The Bank recognizes impairment of a nature other than temporary, at least in each of the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

"Significantly lower" –

In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;

In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;

Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization;

- A security that had been sold prior to the date of publication of the financial report for the period;
- A security, which near the date of publication of the financial report for the period, is intended to be sold within a short period;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least four notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase.

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of profit and loss when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the statement of profit and loss (the new cost base).

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the effective part of the change in the fair value of a derivative designated to hedge a cash flow risk, is initially reported in the equity (outside the statement of profit and loss) as a component of "other comprehensive income", following which, where the cash flows affect the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, which are accessible to the Bank at measurement date;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Such hierarchy requires the use of observable inputs, where this information is available. Where possible, the Bank, when making its assessments, considers observable and relevant market inputs. The volume and frequency of the transactions the size of the bid/ask spread and the extent of the adjustment required when comparing similar transactions, are all factors being considered when determining liquidity of the markets and the relevancy of observable prices in these markets.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Securities. The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most active market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted in respect of the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is unavailable, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most efficient market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. Offsetting assets and liabilities. The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the banking corporation and the counterparty owe to one another determinable amounts.

When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off with respect to said liabilities.

The Bank examines whether the right of set-off will be valid also in situations of insolvency or other receivership and also considers the existence of legal restrictions in order to determine whether the right of set-off is enforceable.

On the background of the instruction and following its initial implementation, the Bank has decided to discontinue the offsetting of exposure in respect of derivative instruments in the balance sheet.

With respect to repurchase transactions, a banking corporation is entitled to offset "securities purchased under repurchase agreements" against "securities sold under repurchase agreements" if certain conditions set out in this respect in U.S. GAAP, exist.

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. Transfers and services relating to financial assets and settlement of liabilities. The Bank applies the measurement and disclosure rules determined in the U.S. Financial Accounting Standard FAS 140 (ASC 860-10) "Transfers and servicing of financial assets and extinguishments of liabilities" as amended by FAS 166 "Transfers of financial assets" (ASC 860-10), for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of a financial asset shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset may pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, does not retain effective control over the financial assets.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists; the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, except where all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. Where sale conditions do not exist, the transfer is treated as a collateralized debt. The difference between the amount of consideration received and the amount of the disposed assets is recognized in the statement of profit and loss. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continue to be stated in the Bank's balance sheet and the proceeds of sale are recognized as a liability of the Bank.

Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under resale agreements terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the item "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the item "Securities loaned or sold under repurchase agreements". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the item "Securities borrowed or purchased under resale agreements".

10. Fixed assets (buildings and equipment)

Recognition and measurement. Fixed asset items are measured at cost less depreciation and losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see item 1 D 12 below.

Depreciation. Depreciation is a methodical allocation of the depreciable amount of an asset over its useful life span. The depreciable amount is the cost of the asset, or another amount replacing cost, less the residual value of the asset. Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items inherent in the asset. Leased assets are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not depreciated.

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined at the end of each financial year and adjusted where required.

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. Leases. Leases, including the lease of land from the Israel Land Administration or from other third parties in respect of which the Group essentially bears all risk and yield pertaining to the asset, are classified as financial leases. Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value or the present value of the future minimum lease fees. Future payments to the Israel Land Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and the related liability, since they constitute conditional lease fees derived from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accepted accounting policy in respect of such an asset.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All other leases are classified as operational leases, and the leased assets are not recognized in the balance sheet of the Group. The Bank recognizes lease payments in respect of operating leases as an expense in the statement of profit and loss, on the straight-line basis over the period of the lease, including the option period, where on date of signing the lease it is reasonably certain that the option would be exercised.

Where the lease includes components of land and buildings, the Bank assesses the classification of each component separately as an operating lease or a financial lease, in accordance with the classification instructions of IAS 17. In determining whether the land component comprises an operating lease or a financial lease, the Bank takes into consideration that normally land has an indeterminate economic lifespan.

12. Intangible assets

Goodwill. For details regarding the measurement of goodwill upon initial recognition thereof, see item 2.1 above. In following periods, goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Capitalization of software costs for internal use – costs incurred in the development stage of software intended for internal use are capitalized where Management is committed to finance the project, and it is expected that the project would be successfully completed and the software would fulfill its purpose. It is noted that already today, the public reporting instructions in the matter of capitalization of software costs for internal use are based, inter alia, on the U.S. standard SOP 98-1 (contained within the framework of ASC 350-40)(software costs are presented as part of fixed assets. See item 10 above).

Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Goodwill and intangible assets of indeterminate life span are not amortized but are examined yearly for examining impairment.

Intangible assets created within the Bank (such as: software in the course of development) are not amortized so long as they are not ready for use. Accordingly, impairment of such intangible assets is reviewed once a year, until they become available for use.

Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs, as follows:

- A minimum materiality level of between NIS 450 thousand and NIS 600 thousand, shall be determined for each software development project, in respect of which software development costs are capitalized. Any software development project, the total cost of which is lower than the determined materiality level, shall be recognized as an expense in the statement of income (the materiality thresholds determined by the Bank: minimum costs per project – NIS 600 thousand, minimum improvements and upgrading costs – NIS 450 thousand);
- The period of amortization of software development costs shall not exceed five years;
- Capitalization coefficients of lower that 1, shall be determined for hours worked, taking into consideration the potential for deviation in computing the hours worked and the lack of economic efficiency;
- The grade of employees whose employment costs are capitalized to assets shall be restricted, so that the uppermost grade would be that of a manager, demonstrably occupied for most of his time in actual development, is responsible for a small number of employees, and it is possible to accurately measure the number of hours actually invested by him in each development project;
- Costs, which are not attributed to a project according to specific reported hours, where the employee declares, on the basis of a daily report, that the costs were specifically invested in the project, shall be recognized as an expense.

In addition, the Supervisor has determined that a comprehensive examination shall be made regarding a possible impairment of each of the assets, the development of which had been completed, as well as each of the assets under development, indicating any possible sign of the signs for impairment as stated in the instructions and whether a provision for impairment should be recorded.

The initial implementation and its effect. Implementation of the requirements included in the guidelines, affected in the amount of NIS 87 million after the tax effect, reduction of the equity (as of December 31, 2014).

13. Impairment of non-financial assets

Determination of cash producing units. For the purpose of testing impairment, assets that cannot be specifically assessed are gathered together in the smallest asset group, which produces cash from continuing use, and which are basically independent of other assets and groups ("a cash producing unit").

Assets of the Bank's Head Office. Assets of the Bank's Head Office do not produce separate cash flows and serve more than one cash producing unit. A part of the Head Office assets are attributed to cash producing units on a reasonable and consecutive basis and are tested for impairment as part of the impairment test in respect of the cash producing unit to which they are attributed.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Head Office assets, which cannot be reasonably and consecutively attributed to cash producing units, are attributed to a group of cash producing units in the event that signs exist for impairment of an asset belonging to the Head Office of the Bank, or where signs exist for impairment of a group of cash producing units. In such a case, a recoverable amount is determined in respect of the group of cash producing units being served by the Head Office.

Recognition of loss on impairment. Losses on impairment are recognized when the book value of an asset or of a cash producing unit exceeds the recoverable amount, and are recorded in profit and loss.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed Or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, it is required to examine impairment in accordance with the rules of ASC 360.

14. Non-current assets held for sale. Non-current assets (or realization groups comprising assets and liabilities) expected to be realized through a sale or distribution and not by way of continued use (excluding assets foreclosed in respect of impaired debts), are classified as assets held for sale if highly expected to be recovered mainly by means of a sale transaction and not by a continued use. This applies also where the Bank is committed to the planning of a sale involving the loss of control over a subsidiary company, irrespective of whether the Bank remains with non-controlling rights in consolidated subsidiaries in the former subsidiary subsequent to the sale.

Immediately prior to the classification of the assets as held for sale or distribution, the assets (or the components of the groups intended for disposal) are measured according to the Bank's accounting policy. Subsequently, the assets (or the group intended for disposal) are measured according to the lower of the stated value or the fair value, net of selling expenses. In following periods, depreciable assets classified as held for sale or distribution are no longer depreciated periodically, and investments in affiliated companies held for sale are no longer treated by the equity method.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, remuneration increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined in accordance with the rules detailed in item 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks with respect to internal control over the financial reporting process in the matter of employee rights, including with respect to examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

15.2 Post retirement benefits – defined deposits plans

- A defined deposit plan is a plan according to which the Bank deposits fixed amounts with a third party, thereby avoiding any legal or inferred liability for additional payments. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

15.3 Other long-term benefits to active employees: long-service (jubilee) awards

- The liability accrues over the period entitling to the benefit;
- For the purpose of computing the liability, the rates of discount and actuarial assumptions are taken into consideration;
- The whole cost component of the benefit for the period, including actuarial profits and losses, are recognized immediately in the statement of profit and loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.4 Absence from work entitling compensation – vacation and sick leave

- The liability in respect of vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.5 The accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates, it is determined that:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the new rules, as stated above (hereinafter: "the loss"), shall be included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, shall be recognized in accumulated other comprehensive income, and shall reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, shall be amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, shall be included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan;
- The effect of the initial implementation on other employee benefits, where all changes therein are recognized in the statement of profit and loss on a current basis (such as jubilee awards), was recognized in retained earnings.

15.6 The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management (see hereunder).

The limits set by the Bank's management, within the framework of approval of the retirement plan in August 2014, which have been implemented as from the financial statements as of June 30, 2014:

- During the years 2015-2016, employees will not be entitled to retire under preferential terms, except in exceptional cases;
- The minimum age for retirement under preferred terms is 50;
- The special fund for exceptional retirement cases, which was created in the past and whose balance as of December 31, 2015 amounted to NIS 19 million (December 31, 2014: NIS 35 million), will be used for the retirement of employees in exceptional cases during the years 2015-2016.

The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the years 2004-2010. In view of the scope of natural retirement anticipated in the years 2017-2028, it had been assumed that the rate of voluntary retirement in these years will be 2% per year from the age of 50. The computation based on retirement rates has been applied retroactively.

For details regarding the retirement plan, see Note 23 G below.

The limitations determined by the Management, in connection with the 2016 retirement plan, which have been implemented as from the financial statements as of December 31, 2016, are as follows:

- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund for exceptional retirement cases;
- In the years 2017-2021, the retirements vector will stand at 0.25%, in the years 2022-2027, it will stand at 2% and from 2028 and thereafter in accordance with research conducted by the actuary.

The change in the aforesaid assumptions has resulted in an “actuarial gain” of NIS 125 million, which was recorded in other comprehensive income.

16. Contingent liabilities. The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard SFAS-5 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made may differ from assessment conducted prior to filing of the claim.

17. Taxes on income. The Bank and its consolidated subsidiaries use the tax allocation method with respect to timing differences in the recognition for tax purposes of certain income and expenses. Deferred taxes have been calculated according to the "liability" method, at tax rates expected to be applicable during the period in which the deferred taxes are realized, based on laws in force at the balance sheet date. The realization of deferred taxes receivable is contingent upon the future existence of taxable income. Management believes that such deferred tax assets will be realizable in the future.

Profits from the future sale of investments in shares of investee companies may attract additional taxes. The provision for deferred taxes does not include taxes relating to the sale of investments in investee companies as long as the supposition of the ongoing holding of the investment exists.

The provision for taxes on income of the Bank and its consolidated subsidiaries which are financial institutions, for the purposes of Value Added Tax, includes profit tax and payroll tax, which is included in the statement of profit and loss under the item "Salaries and related expenses".

Income taxes include current and deferred taxes. Current and deferred taxes are recognized in the statement of profit and loss, unless the taxes stem from business combinations, or are recognized directly in shareholders' equity to the extent that they stem from items recognized directly in shareholder's equity.

A deferred tax asset in respect of carry-forward losses, tax benefits and deductible temporary differences, is recognized in the books when positive income is more likely than not expected to exist in the future, against which such deferred taxes might be utilized. Deferred tax assets are examined at each reporting date, and if found that the related tax benefits are not expected to be realized in the future, the tax assets are written off.

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Setoff of deferred tax assets and liabilities. The Bank offsets deferred tax assets against deferred tax liabilities where a legal and enforceable right exists for the setoff of current tax assets and liabilities that relate to the same taxable income, which is taxed by the same tax authority in respect of that assessed entity.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intercompany transactions. Deferred tax in respect of intercompany transactions in the consolidated financial statements is recognized according to the tax rate applying to the purchasing company.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

18. Earnings per share. The Bank presents basic earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment in respect of the effect of all potentially diluting shares, including share option warrants.

19. Operating segments reporting

Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements in accordance with Management's approach, when these are materially different from the regulatory operating segments.

Operating Segments according to Management's approach. In addition to the uniform reporting according to regulatory operating segments, the circular requires disclosure of operating segments in accordance with Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

An operating segment defined in accordance with Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for the purpose of making decisions regarding the allocation of resources and evaluation of its performance; and that separate financial information exists in respect thereof.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the item "Non-allocated amounts and adjustments.

The new reporting format as regards the regulatory operating segments has been initially applied as from the 2015 annual report, subject to relief and transitional instructions set by the Supervisor. For further details, see Note 29. In accordance with the said instructions, the new disclosure format, including the comparative data, has been initially presented as from the 2016 annual report. The new reporting format regarding operating segments according to Management's approach has been initially applied in the 2015 annual report.

20. Amortization of deferred expenses. Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

21. Debtors and creditors regarding credit card activity. At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. **Recognition of income from contracts with customers.** A circular was published on January 14, 2015, in the matter of adoption of the update for accounting principles regarding income from contracts with customers. The circular updates the Reporting to the Public Directives in view of the publication of ASU 2014-09, which adopts in U.S. GAAP a new standard in the matter of income recognition. The Standard states that income shall be recognized by the implementation of a five stage model, which, among other things, include rules for the identification of the contract with the customer and for the determination of the transaction price, rules defining how the different components of the contract should be separated and the manner by which the total transaction price should be attributed to each separate and identified component. Furthermore, in accordance with the provisions of the Standard, income is to be recognized in respect of each identified component separately, and this in accordance with rules stated by the Standard with respect to the timing of recognition of the income – at a specific date or over a period of time.

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

   The new standard does not apply, among other things, to financial instruments and to contractual rights or liabilities under Chapter 310 of the Codification.

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

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

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

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

   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 examined the instructions of the circulars and their possible implications on the Bank. As estimated by the Bank, the circulars are not expected to have a material impact.

3. **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. SIGNIFICANT 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.

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

The Bank estimates that circular has no material effect.

4. **Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated November 1, 2016.** A circular was published on November 1, 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 205-20 of the Codification in the matter of "Discontinued operations";
   - Accounting principles accepted by U.S. banks regarding topic 360 of the Codification in the matter of "Fixed assets".
   - Accounting principles accepted by U.S. banks regarding topic 260 of the Codification in the matter of "Earnings per share".
   - Accounting principles accepted by U.S. banks regarding topic 230-10 of the Codification in the matter of "Statement of cash flows".
   - Accounting principles accepted by U.S. banks regarding topic 270 of the Codification in the matter of "Interim period reporting".
   - Capitalization of interest costs in accordance with Topic 835-20 of the Codification regarding "Capitalization of interest" (it has been clarified in this regard that in accordance with the public reporting instructions, a banking corporation shall not capitalize interest costs, without having determined a policy and clear procedures and controls with respect to the criteria for the recognition of assets as qualified assets and with respect to the interest costs that would be capitalized);
   - Measurement and disclosure of guarantees in accordance with Topic 460 of the Codification regarding "Guarantees".

   The provisions stated in the circular will take effect as from January 1, 2018 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.

   The Bank has not yet begun studying the effect of the circular upon its financial statements.
5. **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.

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

MDB had formed an accounting policy in this matter, as required, which determined a quantitative minimum amount of NIS 50 thousand. Namely, debts in amounts exceeding this minimum amount were examined by MDB on a specific basis. The said quantitative minimum amount served MDB in the implementation of its accounting policy, since the date of effect of the Directive (January 1, 2011) and until December 31, 2015.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

G. Reclassification. 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

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
A. Interest Income[2]						
Credit to the public	5,024	4,598	4,744	2,858	2,628	2,958
Credit to the Governments	18	18	15	18	16	12
Deposits with the Bank of Israel and cash	23	29	88	13	21	70
Deposits with Banks	19	25	36	15	13	13
Securities borrowed or purchased under resale agreements	[4]-	[4]-	2	[4]-	[4]-	2
Bonds[1]	555	576	825	272	234	392
Other assets	32	21	26	10	[4]-	1
Total interest income	**5,671**	**5,267**	**5,736**	**3,186**	**2,912**	**3,448**
B. Interest Expenses						
Deposits from the public	(504)	[5](428)	[5](769)	(480)	(470)	(816)
Deposits from the Government	(3)	[5](3)	[5](4)	[4]-	(1)	(1)
Deposits from banks	(30)	(30)	(46)	(6)	(4)	(17)
Securities loaned or sold under repurchase agreements	(146)	(149)	(143)	-	-	-
Bonds and subordinated debt notes	(415)	(427)	(552)	(179)	(161)	(185)
Other liabilities	(4)	(5)	(4)	(4)	(4)	(4)
Total interest expenses	**(1,102)**	**(1,042)**	**(1,518)**	**(669)**	**(640)**	**(1,023)**
Interest Income, Net	**4,569**	**4,225**	**4,218**	**2,517**	**2,272**	**2,425**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest Income (expenses)[3]	62	(23)	(100)	62	(23)	(100)
D. Accrual basis, interest income from bonds:						
Held-to-maturity	202	216	235	101	98	113
Available-for-sale	341	357	567	160	136	261
Trading	12	3	23	11	[4]-	18
Total included in interest income	555	576	825	272	234	392

Footnotes:

(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	42	41	52	-	-	-
Financing income generated by mortgage backed securities (MBS) - in NIS millions	161	159	185	-	-	-

(2) Including the effective component of hedging relationships.

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

(4) An amount lower than NIS 1 million.

(5) Reclassified, see Note 1 G.

3. NON-INTEREST FINANCING INCOME

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
A. Non-interest financing income from operations not for trading purposes						
1. From operations in derivative instruments						
Net profit (expenses) in respect of ALM derivative instruments[4]	(333)	(378)	821	(321)	(335)	743
Total from operations in derivative instruments	**(333)**	**(378)**	**821**	**(321)**	**(335)**	**743**
2. From investments in bonds[3]:						
Gains on sale of available-for-sale bonds	163	243	387	133	176	303
Losses on sale of available-for-sale bonds	(3)	(14)	(57)	(2)	(2)	-
Provision for impairment of available-for-sale bonds	(14)	(4)	(68)	(14)	(3)	(12)
Total from investments in bonds	**146**	**225**	**262**	**117**	**171**	**291**
3. Net exchange rate differences	**449**	**504**	**(675)**	**430**	**459**	**(632)**
4. Net profit (losses) from investments in shares:						
Gains on sale of available-for-sale shares[3]	71	93	64	-	3	-
Gains on sale of of rights in Visa Europe[7]	360	-	-	97	-	-
Losses on sale of available-for-sale shares[3]	(12)	[9](38)	(6)	(12)	[9](28)	(6)
Provision for impairment of available-for-sale shares[3]	(4)	[10](104)	(54)	(2)	[10](99)	(55)
Dividends from available-for-sale shares	11	24	67	1	13	44
Profit on sale of shares and activities of affiliated companies	19	-	-	1	-	-
Loss on sale of affiliated companies	-	(27)	-	-	-	-
Total from investment in shares	**445**	**(52)**	**71**	**85**	**(111)**	**(17)**
5. Net profit in respect of loans sold	**14**	**13**	**[8]-**	**12**	**14**	**[8]-**
Total non-interest financing income from operations not for trading purposes	**721**	**312**	**479**	**323**	**198**	**385**
B. Non-interest financing income from operations for trading purposes[5]:						
Net income in respect of other derivative instruments	42	37	33	7	11	10
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	(8)	14	45	(8)	12	39
Net realized and non-realized losses on adjustment of trading shares to fair value[2]	(1)	[8]-	(8)	(1)	[8]-	(7)
Total from trading operations[6]	**33**	**51**	**70**	**(2)**	**23**	**42**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	11	26	55	(11)	12	39
Foreign currency exposure	12	14	13	-	-	-
Share exposure	10	11	2	9	11	3
Total according to risk exposure	**33**	**51**	**70**	**(2)**	**23**	**42**
Total non-interest financing income	**754**	**363**	**549**	**321**	**221**	**427**

Footnotes:

(1) Of which, a part of the profit (losses) relating to trading bonds that are still on hand at balance sheet date	(5)	(7)	16	(3)	(6)	16
(2) Of which, a part of the losses relating to trading shares that are still on hand at balance sheet date	[8]-	(1)	(2)	[8]-	(1)	(2)
(3) Reclassified from accumulated other comprehensive profit, see Note 10:						
Of which profit, from investments in bonds, net	146	226	262	117	171	291
Of which, from investment in shares	-	(97)	(54)	-	(102)	(61)

(4) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.
(5) Including exchange rate differences from trading operations.
(6) For interest income on investments in trading bonds, see Note 2, above.
(7) See Note 36 F. The consideration has been calculated in accordance with the cash consideration received in June 2016, with the addition of the fair value of the special preferred shares in VISA Inc. received in June 2016 (the market value of the VISA shares to be received upon conversion of the said preferred shares, discounted by a coefficient of 50%, in accordance with the Bank's assessment of the share blockage impact and the effect of certain .uncertainties inherent in the conversion mechanism) and of the future cash consideration expected to be received in the year 2019.
(8) An amount lower than NIS 1 million.
(9) Including an amount of NIS 34 million being the reimbursement to a borrower made by the Bank and MDB in 2015, of violation interest, which had been classified to this item in accordance with a guideline of the Supervisor of Banks. This in line with a guideline of the Supervisor of Banks issued in 2003, according to which, the Bank and MDB were required to classify the outstanding balance of the borrower's debt as "security" being part of the available-for-sale security portfolio, based on the market value of their share in the collateral (being shares of a certain corporation).
(10) Principally in respect of the shares in FIBI ,see Note 38 (5) and (6) .

4. COMMISSIONS

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Ledger fees	489	523	571	306	300	335
Credit cards	1,024	977	935	137	131	136
Operations in securities and in certain derivative instruments	322	332	338	208	218	216
Commissions from the distribution of financial products	136	147	138	124	134	128
Management, operational and trusteeship services for institutional bodies	-	7	15	-	-	-
Handling credit	136	141	123	90	104	90
Conversion differences	138	146	139	108	114	109
Foreign trade services	53	50	51	42	40	41
Net profit from credit portfolio services	11	11	16	11	9	14
Commissions on financing activities	181	175	163	122	115	109
Other commissions	95	102	97	41	44	46
Total fees	**2,585**	**2,611**	**2,586**	**1,189**	**1,209**	**1,224**

5. OTHER INCOME

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	5	6	6
Capital gain on sale of buildings and equipment	83	50	5	75	17	5
Capital loss on sale of equipment	(3)	-	-	(3)	-	-
Other income	20	29	13	58	59	57
Total other income	**100**	**79**	**18**	**135**	**82**	**68**

6. SALARIES AND RELATED EXPENSES

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Salaries	2,239	(6)2,337	(6)2,409	1,331	(6)1,363	(6)1,473
Expense resulting from share based payment transactions(2)	(1)-	(1)-	(2)	(1)-	(1)-	(2)
Other related expenses including further education fund, vacation and sick leave	135	145	142	61	53	66
Long-term benefits	18	(20)	18	27	22	(4)
National Insurance and payroll taxes	493	534	573	360	381	426
Pension expenses (including severance pay and provident fund contributions)(3)						
Defined Benefits	(5)302	154	220	(5)229	92	156
Defined deposits	153	144	149	110	104	113
Other post-retirement benefits and non-pension post retirement benefits(3)	45	48	61	41	44	57
Special benefits in respect of dismissal	-	(4)24	(3)481	-	-	(3)448
Expenses regarding other employee benefits	31	(6)30	(6)35	4	(6)5	(6)9
Total salaries and related expenses	**3,416**	**3,396**	**4,086**	**2,163**	**2,064**	**2,742**
Of which: overseas salaries and related expenses	347	514	463	-	12	16

Footnotes:

(1) An amount lower than NIS 1 million.

(2) See Note 24.

(3) See Note 23.

(4) Increased compensation to employees of an investee company overseas whose operations were sold.

(5) Of which settlement in 2016 - 141 million NIS in consolidated and 125 million NIS in Bank.

(6) Improvement in classification of certain expenses.

7. OTHER EXPENSES

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	In NIS millions					
Advertising	183	190	202	48	49	53
Communications	125	125	121	64	62	64
Computer services	149	133	122	69	53	59
Office expenses	34	30	32	19	17	18
Insurance	62	55	49	35	15	7
Professional services	155	139	151	82	65	70
Directors' fees	14	13	14	6	6	5
Instruction and training	11	11	9	7	5	5
Fees	233	195	160	28	29	28
Other	280	(1)280	(1)307	123	121	82
Provision in ICC for arrangement replacing criminal proceedings(2)	85	-	-	-	-	-
Total other expenses	**1,331**	**1,171**	**1,167**	**481**	**422**	**391**

Footnotes:

(1) Including a provision (provision reversal) for a loss on the sale of the activity of DBLA: in 2015 – NIS (21) million; in 2014 – NIS 66 million.

(2) See Note 36 E.

8. PROVISIONS FOR TAXES ON PROFIT

A. COMPOSITION

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Taxes for current year[2]	653	462	453	225	151	193
Taxes for previous years	21	(61)	(160)	7	(72)	(59)
Total current taxes	**674**	**401**	**293**	**232**	**79**	**134**
Addition (deduction):						
Deferred taxes for current year	76	79	(220)	51	44	(183)
Deferred taxes for previous years	3	88	198	12	84	89
Total deferred taxes[1]	**79**	**167**	**(22)**	**63**	**128**	**(94)**
Total provision for taxes on profit	**753**	**568**	**271**	**295**	**207**	**40**
Of which: tax provision abroad	118	119	60	-	1	7

Footnotes:

(1) Movement in deferred taxes:

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
Creation and reversal of temporary differences[3]	15	137	1	26	115	(95)
Change in the tax rate	109	21	-	85	16	-
Deferred taxes reclassified from accumulative other comprehensive income to the statement of profit and loss	(45)	9	(23)	(48)	(3)	1
Total deferred taxes	**79**	**167**	**(22)**	**63**	**128**	**(94)**
(2) Of which, an amount of benefits deriving from loss for tax purposes, tax credit or a temporary difference from a prior period, not recognized in the past and used to decrease current tax expenses	7	8	17	-	-	-
(3) Of which, an amount of benefit deriving from the initial recognition of a deferred tax asset from a prior period, not recognized in the past	5	-	-	-	-	-

8. PROVISIONS FOR TAXES ON PROFIT (CONTINUED)

B. RECONCILIATION BETWEEN THE THEORETICAL TAX WHICH WOULD APPLY HAD THE PROFIT BEEN TAXED AT THE STATUTORY TAX RATE APPLYING TO THE BANKING CORPORATIONS IN ISRAEL, TO THE PROVISION OF TAXES ON OPERATING PROFIT AS CHARGED IN THE STATEMENT OF PROFIT AND LOSS:

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
Statutory tax rate on banks in Israel	35.90%	37.58%	37.71%	35.90%	37.58%	37.71%
	in NIS millions					
Income tax at the statutory tax rate	619	513	298	192	155	35
Income tax (tax savings) on:						
Income of foreign subsidiaries	10	2	(5)	-	(6)	-
Income exempt from tax or taxed at preferred rates	(2)	(8)	(56)	(1)	(5)	(50)
Adjustment differences on depreciation and capital gains	(6)	29	22	(4)	32	22
Other non-deductible expenses	27	6	4	4	4	4
Losses and timing differences (utilization), net, in respect of which no deferred tax assets were recorded	(6)	(5)	(17)	1	-	-
Change in the balance of deferred taxes resulting from the change in tax rates	109	21	-	85	16	-
Taxes for prior years	(4)	11	22	(3)	-	16
Additional amounts payable with respect to problematic debts	28	16	16	22	12	14
Income of Israeli subsidiaries	(22)	(17)	(13)	(1)	(1)	(1)
Total provision for taxes on profit	**753**	**568**	**271**	**295**	**207**	**40**

C. (1) An income tax audit had been performed at the Bank for the tax years up to and including the year 2012. An agreed tax assessment was issued to the Bank in respect of the year 2010, with the exception of a dispute regarding the issue of the chargeability to profit tax on a dividend received from a trader ("the dividend issue"), in respect of which the Bank filed an appeal with the District Court. On January 30, 2017, the Court ruled for the rejection of the Bank's appeal. The Bank indents to file with the Supreme Court an appeal against this decision. On March 9, 2017 the Bank was granted an extension until May 15, 2017, for the filing of the said appeal.

Agreed tax assessments have also been issued to the Bank for the tax years 2011 and 2012, with the exception of the dispute regarding the dividend issue, in respect of which an appeal was filed with the District Court. At the request of the Tax Assessing Officer, the hearing of this appeal has been deferred until after a ruling is given by the Supreme Court in the said appeal by the Bank regarding the dividend issue for 2010.

(2) Agreed withholding tax assessments have been issued to the Bank for the years 2011 to 2013, with the exception of two issues in respect of which the Bank has filed an objection to the decision of the Assessing Officer.

(3) The major consolidated subsidiaries have received final tax assessments, or assessments deemed final, for tax years between 2011 to 2013.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totals NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. Based on its legal counsel's opinion and taking into consideration the provisions existing on the books of the company for reasons of care, Management of ICC estimate that the potential exposure to this case is not material.

E. The consolidated balance as of December 31, 2016, of the carry forward tax losses, deductibles and timing differences amounted to NIS 67 million (December 31, 2015: NIS 96 million; the amount is not material at the Bank level).

F. On February 9, 2000, the Bank’s shares in IDB New York were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank’s books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

8. PROVISIONS FOR TAXES ON PROFIT (CONTINUED)

g. **Deferred tax liabilities not recognized.** As of December 31, 2016, deferred tax liabilities in the amount of NIS 413 million, in respect of temporary differences in the amount of NIS 2,095 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

H. ITEMS IN RESPECT OF WHICH DEFERRED TAX ASSETS WERE NOT RECOGNIZED

DEFERRED TAX ASSETS WERE NOT RECOGNIZED IN RESPECT OF THE FOLLOWING ITEMS:

	Consolidated		The Bank	
	December 31			
	2016	2015	2016	2015
	in NIS millions			
Loss for tax purposes	**19**	**25**	**2**	**1**

I. BALANCES OF DEFERRED TAXES RECEIVABLE AND PROVISION FOR DEFERRED TAXES:

1. CONSOLIDATED

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2016	2015	2016	2015	2016	2015	2016	2015
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	602	539	34.2	37.2	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	508	569	34.1	37.1	-	-	-	-
From excess liabilities in respect of employee benefits over the assets of the plan	443	390	34.1	37.2	-	-	-	-
On income tax carry- forward deductions	1	24	24.0	26.5	-	-	-	-
On activity outside of Israel	172	161	40.1	39.5	-	-	-	-
On securities	-	-	-	-	3	2	34.2	37.1
On adjustment of depreciable non-monetary assets	-	-	-	-	95	112	27.2	29.8
On other monetary assets	34	71	29.8	32.8	-	-	-	-
Reserve for tax on profit of Investee companies	-	-	-	-	49	23	11.7	11.5
Total, net	**1,760**	**1,754**	**34.5**	**36.9**	**147**	**137**	**18.9**	**23.6**

I. BALANCES OF DEFERRED TAXES RECEIVABLE AND PROVISION FOR DEFERRED TAXES (CONTINUED):

2. THE BANK

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2016	2015	2016	2015	2016	2015	2016	2015
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	418	378	34.2	37.2	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	475	507	34.2	37.2	-	-	-	-
From excess liabilities in respect of employee benefits over the assets of the plan	310	278	34.2	37.2	-	-	-	-
On income tax carry- forward deductions	1	24	24.0	26.5	-	-	-	-
On securities	-	-	-	-	2	-	34.2	-
On adjustment of depreciable non-monetary assets	-	-	-	-	77	89	26.7	29.4
On other monetary assets	24	47	34.2	37.2	-	-	-	-
Reserve for tax on profit of Investee companies	-	-	-	-	45	22	11.2	11.1
Total, net	**1,228**	**1,234**	**34.1**	**36.9**	**124**	**111**	**17.6**	**22.2**

8. PROVISIONS FOR TAXES ON PROFIT (CONTINUED)

J. BALANCES OF DEFERRED TAXES RECEIVABLE AND PROVISION FOR DEFERRED TAXES (CONTINUED)

THE CHANGE IN DEFERRED TAX ASSETS AND TAX LIABILITIES IS ATTRIBUTED TO THE FOLLOWING ITEMS:

1. CONSOLIDATED

	Allowance for credit losses	Securities	Investments in investee companies	Overseas activity	Adjustment of depreciable non-financial assets	Provision for vacation pay and awards	Excess liabilities in respect of employee benefits over the assets of the plan	Carry forward deductions for tax purposes	Other	Total
	in NIS millions									
Balance of deferred tax asset (tax liability) as of January 1, 2016	539	(2)	(23)	161	(112)	569	390	24	71	1,617
Changes recognized in the statement of profit and loss	108	(13)	(26)	29	8	(1)	(26)	(22)	(33)	24
Effect of the change in the tax rate	(45)	-	-	-	9	(41)	(21)	(1)	(4)	(103)
Changes recognized in the equity	-	12	-	(16)	-	(19)	100	-	-	77
Financial statements translation adjustments	-	-	-	(2)	-	-	-	-	-	(2)
Balance of deferred tax asset (tax liability) as of December 31, 2016	**602**	**(3)**	**(49)**	**172**	**(95)**	**508**	**443**	**1**	**34**	**1,613**
Of which: Deferred tax asset	602	-	-	172	-	508	443	1	34	1,760
Of which: Balances available for setoff	-	-	-	-	-	-	-	-	-	(124)
Deferred tax asset as of December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,636**
Of which: Deferred tax liability	-	-	(4)	-	(19)	-	-	-	-	(23)
Deferred tax liability as of December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23)**
Balance of deferred tax asset (tax liability) as of January 1, 2015	631	(5)	(11)	157	(105)	655	375	41	53	1,791
Changes recognized in the statement of profit and loss	(84)	(15)	(12)	19	(8)	(58)	11	(17)	18	(146)
Effect of the change in the tax rate	(8)	(1)	-	-	1	(9)	(5)	-	-	(22)
Changes recognized in the equity	-	19	-	(8)	-	(19)	9	-	-	1
Financial statements translation adjustments	-	-	-	(7)	-	-	-	-	-	(7)
Balance of deferred tax asset (tax liability) as of December 31, 2015	**539**	**(2)**	**(23)**	**161**	**(112)**	**569**	**390**	**24**	**71**	**1,617**
Of which: Deferred tax asset	539	-	-	161	-	569	390	24	71	1,754
Of which: Balances available for setoff	-	-	-	-	-	-	-	-	-	(119)
Deferred tax asset as of December 31, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,635**
Of which: Deferred tax liability	-	-	(1)	-	(17)	-	-	-	-	(18)
Deferred tax liability as of December 31, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18)**

8. PROVISIONS FOR TAXES ON PROFIT (CONTINUED)

J. BALANCES OF DEFERRED TAXES RECEIVABLE AND PROVISION FOR DEFERRED TAXES (CONTINUED)

THE CHANGE IN DEFERRED TAX ASSETS AND TAX LIABILITIES IS ATTRIBUTED TO THE FOLLOWING ITEMS (CONTINUED):

2. THE BANK

	Allowance for credit losses	Securities	Investments in investee companies	Adjustment of depreciable non-financial assets	Provision for vacation pay and awards	Excess liabilities in respect of employee benefits over the assets of the plan	Carry forward deductions for tax purposes	Other – monetary items	Total
	in NIS millions								
Balance of deferred tax asset (tax liability) as of January 1, 2016	378	-	(22)	(89)	507	278	24	47	1,123
Changes recognized in the statement of profit and loss	70	-	(23)	5	24	(41)	(22)	(20)	(7)
Effect of the change in the tax rate	(30)	-	-	7	(38)	(14)	(1)	(3)	(79)
Changes recognized in the equity	-	(2)	-	-	(18)	87	-	-	67
Balance of deferred tax asset (tax liability) as of December 31, 2016	**418**	**(2)**	**(45)**	**(77)**	**475**	**310**	**1**	**24**	**1,104**
Of which: Deferred tax asset	418	-	-	-	475	310	1	24	1,228
Of which: Balances available for setoff	-	-	-	-	-	-	-	-	(105)
Deferred tax asset as of December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,123**
Of which: Deferred tax liability	-	-	-	(19)	-	-	-	-	(19)
Deferred tax liability as of December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**
Balance of deferred tax asset (tax liability) as of January 1, 2015	468	-	(10)	(99)	568	265	41	37	1,270
Changes recognized in the statement of profit and loss	(83)	-	(12)	9	(38)	6	(17)	11	(124)
Effect of the change in the tax rate	(7)	-	-	1	(8)	(3)	-	(1)	(18)
Changes recognized in the equity	-	-	-	-	(15)	10	-	-	(5)
Balance of deferred tax asset (tax liability) as of December 31, 2015	**378**	**-**	**(22)**	**(89)**	**507**	**278**	**24**	**47**	**1,123**
Of which: Deferred tax asset	378	-	-	-	507	278	24	47	1,234
Of which: Balances available for setoff	-	-	-	-	-	-	-	-	(94)
Deferred tax asset as of December 31, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,140**
Of which: Deferred tax liability	-	-	-	(17)	-	-	-	-	(17)
Deferred tax liability as of December 31, 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(17)**

K. **Tax legislation changes**

2015. On September 24, 2015, a Value Added Tax Order (Rate of tax on transactions and the import of goods) (Amendment), 2015, was published, according to which the VAT rate decreased to 17% as from October 1, 2015. On October 12, 2015, the Knesset approved the Value Added Tax Order (Rate of Tax applying to Non-profit Organizations and Financial Institutions) (Amendment), 2015. According to the Order the payroll tax is to be decreased to 17%, and it is applied to the payment of payroll in respect of October 2015 and thereafter. In addition profit tax will also be decreased to 17%, applying to a proportionate part of the profit for 2015. The legislation amendments reduced the current tax payments of the Bank and of the Israeli subsidiaries, immediately (payroll tax, profit tax and VAT on acquiring services and products).

8. PROVISIONS FOR TAXES ON PROFIT (CONTINUED)

Following the aforesaid decrease in tax rates, the statutory tax rate in 2015 decreased from 37.71% to 37.58%. From the beginning of 2016, the statutory tax rate will decrease to 37.18%.

The reduction in the rate of payroll tax reduced the liabilities of the Bank and of MDB for the payment of certain employee benefits. The reduction in the rate of profit tax reduced the balance of deferred taxes of the Bank and of MDB. The impact of the said changes, based on balances as of September 30, 2015, amounted to NIS 10 million (reduction in profit). The impact on the comprehensive income amounted to NIS 3 million (decrease in tax).

2016. The Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, was published on January 5, 2016, which, among other things reduced the company tax rate from 26.5% to 25%, with effect from January 1, 2016. Following the reduction in the tax rate, as stated, the statutory tax rate for 2016 was reduced from 37.18% to 35.9%.

The decrease in the rate of tax reduced the deferred tax balance of the Bank, MDB and ICC, in an amount of NIS 50 million (reduction in profit).

The Economic Efficiency Act (Legislation amendments for the implementation of the economic policy for the budget years 2017 and 2018, 2017) was published on the Official Gazette on December 29, 2016. The Act reduced the corporation tax to a rate 24% as from January 1, 2017, and to a rate of 23% as from January 1, 2018. As a result thereof, the statutory tax rate for 2017 was reduced to 35.04% and the rate for 2018 and thereafter was reduced to 34.19%

The reduction in the tax rate has reduced the balance of deferred taxes of the Bank, MDB and ICC by an amount of NIS 59 million (a reduction in profits). The impact on the comprehensive income amounted to NIS 20 million (decrease in tax).

L. **Merger between the Bank and Discount Mortgage Bank Ltd. (DMB)**

Decision of the Income Tax Authority. On May 10, 2012, the Income Tax Authorities signed on the decision ("the tax decision") in the matter of the merger of DMB into the Bank – a merger under Section 103b of the Ordinance (namely, an exempt merger), according to which, subject to the fulfillment of the terms detailed in the Ordinance and of the tax decision, that the details of the merger plan, as presented in the application submitted to the Tax Authorities, are in compliance with the terms of Sections 103 c (1) and (7) of the Ordinance, and that the merger shall become effective on December 31, 2011. It has been determined, among other things, in the tax decision that surplus expenses in the hands of the Bank prior to the merger, shall be entitled for setoff against income tax or land betterment tax due by the Bank (subsequent to the merger) in equal installments over a period of five years from date of the merger (20% annually).

M. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the taxes paid abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of taxes that would have been paid in Israel based on the tax rate applicable to the Bank in Israel.

N. For details regarding taxes on income recognized in other comprehensive income, see Note 10 B below.

9. EARNINGS PER SHARE

	For the year ended December 31		
	2016	2015	2014
	in NIS millions		
Basic earnings			
Total net Profit, attributed to bank's shareholders	905	750	505
	In Thousand		
Basic earnings Per share:			
Weighted average of shares of NIS 0.1 par value			
Balance to January 1	1,053,869	1,053,869	1,053,869
In addition:			
Option warrants exercised into shares	1,332	-	-
Shares issued during the period	17,898	-	-
Weighted average of shares of NIS 0.1 par value, used for the Basic earnings	**1,073,099**	**1,053,869**	**1,053,869**
Basic earnings Per share of NIS 0.1 (in NIS)			
Total earnings per share attributed to the Bank's shareholders	**0.84**	**0.71**	**0.48**
Diluted earnings Per share:			
Weighted average of shares of NIS 0.1 par value			
Weighted average of shares of NIS 0.1 par value, used for the Basic earnings	1,073,099	1,053,869	1,053,869
In addition:	-	-	-
The effect of option warrants	586	-	-
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	**1,073,685**	**1,053,869**	**1,053,869**
Diluted earnings Per share of NIS 0.1 (in NIS)			
Total earnings per share attributed to the Bank's shareholders	**0.84**	**0.71**	**0.48**

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Other comprehensive income, before attribution to non-controlling rights holders					Other comprehensive income attributed to non-controlling rights holders	Other comprehensive income attributed to the Bank's shareholders
	Adjustments, net, for presentation of available-for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[(1)]	Net profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
				in NIS millions			
Balance at December 31, 2013	179	(307)	(6)	(340)	(474)	-	(474)
Net change during the year	82	337	3	(22)	400	-	400
Balance at December 31, 2014	**261**	**30**	**(3)**	**(362)**	**(74)**	**-**	**(74)**
Net change during the year	(99)	36	3	28	(32)	(1)	(31)
Balance at December 31, 2015	**162**	**66**	**[(2)]-**	**(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)**

Footnotes:

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

(2) An amount lower than NIS 1 million.

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

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

	2016			2015			2014		
	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	20	(3)	17	(63)	8	(55)	436	(222)	214
Loss (profit) on available-for-sale securities reclassified to the statement of income(2)	(146)	53	(93)	(129)	85	(44)	(246)	114	(132)
Net change during the year	**(126)**	**50**	**(76)**	**(192)**	**93**	**(99)**	**190**	**(108)**	**82**
Translation adjustments									
Financial statements translation adjustments(1)	(44)	-	(44)	(5)9	-	9	336	1	337
Net (profit) loss reclassified to the statement of income including realized operations(2)	-	-	-	(5)27	-	27	-	-	-
Net change during the year	**(44)**	**-**	**(44)**	**36**	**-**	**36**	**336**	**1**	**337**
Cash flow hedging									
Net profit (loss) in respect of cash flow hedging	(4)-	(4)-	-	(2)	1	(1)	(2)	1	(1)
Net (profit) loss in respect of cash flow hedging reclassified to the statement of income	2	(1)	1	7	(3)	4	7	(3)	4
Net change during the year	**2**	**(1)**	**1**	**5**	**(2)**	**3**	**5**	**(2)**	**3**
Employee benefits									
Net actuarial profit (loss)	(430)	117	(313)	30	(13)	17	(33)	14	(19)
Loss (profit) reclassified to the statement of income(3)	191	(55)	136	20	(9)	11	(4)	1	(3)
Net change during the year	**(239)**	**62**	**(177)**	**50**	**(22)**	**28**	**(37)**	**15**	**(22)**
Total net change during the year	**(407)**	**111**	**(296)**	**(101)**	**69**	**(32)**	**494**	**(94)**	**400**
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:									
Total net change during the year	**(5)**	**1**	**(4)**	**(1)**	**(4)-**	**(1)**	**-**	**-**	**-**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the year	**(402)**	**110**	**(292)**	**(100)**	**69**	**(31)**	**494**	**(94)**	**400**

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(2) The pre-tax amount is reported in the statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.

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

(4) An amount lower than NIS 1 million.

(5) Reclassified, in this note.

11. CASH AND DEPOSITS WITH BANKS[1]

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
Cash and deposits with central banks	25,551	25,510	21,427	17,675
Deposits with commercial banks	3,760	3,008	3,169	4,149
Total cash and deposits with banks	**29,311**	**28,518**	**24,596**	**21,824**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	28,819	27,886	24,301	21,063

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. SECURITIES[1]

A. COMPOSITION OF THIS ITEM - CONSOLIDATED

	December 31 ,2016				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	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	-	[9]-	115
Of Israeli financial institutions	83	83	3	-	86
Of foreign financial institutions	35	35	-	1	34
ỏMortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	779	779	7	12	774
Of others abroad[7]	1,552	1,552	47	3	1,596
Total held-to-maturity bonds	**6,267**	**[3]6,267**	**308**	**16**	**6,559**

For footnotes see next page.

12. SECURITIES[1] (CONTINUED)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED (CONTINUED)

	December 31 ,2016				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	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	[9]-	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[8]	2,023	1,997	30	4	2,023
Total bonds	28,753	28,671	208	126	[3]28,753
Shares	963	957	7	1	[5]963
Total available-for-sale securities	**29,716**	**29,628**	**[4]215**	**[4]127**	**29,716**
* Of which: Bonds backed by State guarantees	124	124	[9]-	[9]-	124

	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[2]
	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	-	[9]-	21
Of Israeli financial institutions	14	14	-	[9]-	14
Of foreign financial institutions	39	39	[9]-	[9]-	39
‎ Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	61	62	[9]-	1	61
Of others in Israel*	54	54	[9]-	[9]-	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**	**[6]3**	**[6]8**	**2,835**
* Of which: Bonds backed by State guarantees	17	17	[9]-	[9]-	17
Total securities	**38,818**	**38,735**	**526**	**151**	**39,110**

Footnotes:

(1) See Note 27c for pledges.

(2) 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.

(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 587 million (approx. US$ 153 million) and from the available for sale protfolio with a market value of NIS 3,442 million (approx. US$ 895 million).

(4) Included in "Accumulated other comprehensive income".

(5) Including shares , the fair value of which is not readily available, stated at cost of NIS 853 million.

(6) Recorded in the statement of profit and loss.

(7) 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).

(8) Including U.S. Government agencies, in an amount of NIS 65 million (Book value).

(9) An amount lower than NIS 1 million.

12. SECURITIES(1) (CONTINUED)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED (CONTINUED)

	December 31, 2015				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(2)
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	4,009	4,009	315	-	4,324
Of foreign governments	20	20	-	-	20
Of Israeli financial institutions	84	84	6	-	90
Of foreign financial institutions	35	35	-	1	34
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	1,037	1,037	12	13	1,036
Of others abroad(7)	1,818	1,818	88	1	1,905
Total held-to-maturity bonds(9)	**7,003**	**(3)7,003**	**421**	**15**	**7,409**

	December 31, 2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value(2)
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	15,341	15,079	269	7	15,341
Of foreign governments	912	920	(10)-	8	912
Of Israeli financial institutions	269	269	3	3	269
Of foreign financial institutions	1,866	1,864	17	15	1,866
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,529	7,575	18	64	7,529
Of others in Israel*	452	439	15	2	452
Of others abroad(8)	1,305	1,306	7	8	1,305
Total bonds(9)	27,674	27,452	329	107	(3)27,674
Shares	1,296	1,294	3	1	(5)1,296
Total available-for-sale securities	**28,970**	**28,746**	**(4)332**	**(4)108**	**28,970**
* Of which: Bonds backed by State guarantees	121	121	(10)-	(10)-	121

For footnotes see next page.

12. SECURITIES[1] (CONTINUED)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED (CONTINUED)

	December 31, 2015				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,008	2,014	[10]-	6	2,008
Of foreign governments	835	835	-	-	835
Of foreign financial institutions	1	1	-	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	61	62	[10]-	1	61
Of others in Israel	30	30	[10]-	[10]-	30
Of others abroad	20	20	[10]-	-	20
Total bonds	2,955	2,962	-	7	2,955
Shares	7	8	1	2	7
Total trading securities	**2,962**	**2,970**	**[6]1**	**[6]9**	**2,962**
* Of which: Bonds backed by State guarantees	9	9	-	[10]-	9
Total securities	**38,935**	**38,719**	**754**	**132**	**39,341**

Footnotes:

(1) See Note 27c for pledges.

(2) 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.

(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 756 million (approx. US$ 194 million) and from the available for sale protfolio with a market value of NIS 3,667 million (approx. US$ 940 million).

(4) Included in "Accumulated other comprehensive income".

(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 803 million.

(6) Recorded in the statement of profit and loss.

(7) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,817 million (book value).

(8) Including U.S. Government agencies, in an amount of NIS 70 million (book value).

(9) For details regarding the transfer from the held-to-maturity bonds portfolio to the available-for-sale portfolio, see item j below.

(10) An amount lower than NIS 1 million.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

B. COMPOSITION OF THIS ITEM - THE BANK

	December 31,2016				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,480	3,480	227	-	3,707
Total held-to-maturity bonds and bills	**3,480**	**3,480**	**227**	**-**	**3,707**

For footnotes see next page.

12. SECURITIES[1] (CONTINUED)

B. COMPOSITION OF THIS ITEM - THE BANK (CONTINUED)

	December 31,2016				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	11,366	11,247	137	18	11,366
Of foreign governments	526	533	1	8	526
Of Israeli financial institutions	58	57	1	(6)-	58
Of foreign financial institutions	810	808	6	4	810
Of others in Israel*	145	144	2	1	145
Of others abroad	1,956	1,929	30	3	1,956
Total bonds and bills	**14,861**	**14,718**	**177**	**34**	**14,861**
Shares	94	89	5	(6)-	(4)94
Total available-for-sale securities	**14,955**	**14,807**	**(3)182**	**(3)34**	**14,955**
* Of which: Bonds backed by State guarantees	14	14	-	(6)-	14

	December 31,2016				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	2,543	2,544	2	3	2,543
Of foreign governments	21	21	–	(6)-	21
Of Israeli financial institutions	14	14	–	(6)-	14
Of foreign financial institutions	39	39	(6)-	(6)-	39
Of others in Israel*	42	42	(6)-	(6)-	42
Of others abroad	63	65	-	2	63
Total bonds and bills	**2,722**	**2,725**	**2**	**5**	**2,722**
Shares[6]	-	-	-	-	-
Total trading securities	**2,722**	**2,725**	**(5)2**	**(5)5**	**2,722**
* Of which: Bonds backed by State guarantees	17	17	(6)-	(6)-	17
Total securities	**21,157**	**21,012**	**411**	**39**	**21,384**

Footnotes:

(1) See Note 27c for pledges.

(2) 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.

(3) Included in "accumulated other comprehensive income".

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 4 million.

(5) Recorded in the statement of profit and loss.

(6) An amount lower than NIS 1 million.

12. SECURITIES[1] (CONTINUED)

B. COMPOSITION OF THIS ITEM - THE BANK

	December 31,2015				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,803	3,803	289	-	4,092
Total held-to-maturity bonds and bills	**3,803**	**3,803**	**289**	**-**	**4,092**

	December 31,2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	12,782	12,553	235	6	12,782
Of foreign governments	834	842	[6]-	8	834
Of Israeli financial institutions	65	62	3	[6]-	65
Of foreign financial institutions	1,479	1,473	16	10	1,479
Of others in Israel*	161	159	4	2	161
Of others abroad	1,162	1,163	7	8	1,162
Total bonds and bills	**16,483**	**16,252**	**265**	**34**	**16,483**
Shares	477	477	1	1	[4]477
Total available-for-sale securities	**16,960**	**16,729**	**[3]266**	**[3]35**	**16,960**
* Of which: Bonds backed by State guarantees	14	14	-	[6]-	14

For further footnotes see next page.

12. SECURITIES(1) (CONTINUED)

B. COMPOSITION OF THIS ITEM – THE BANK (CONTINUED)

	December 31,2015				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value(2)
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,990	1,996	(6)-	6	1,990
Of others in Israel	21	21	(6)-	(6)-	21
Of others abroad	18	18	(6)-	--	18
Total bonds and bills	**2,029**	**2,035**	**-**	**6**	**2,029**
Shares	1	2	1	2	1
Total trading securities	**2,030**	**2,037**	**(5)1**	**(5)8**	**2,030**
* Of which: Bonds backed by State guarantees	9	9	-	(6)-	9
Total securities	**22,793**	**22,569**	**556**	**43**	**23,082**

Footnotes:

(1) See Note 27c for pledges.

(2) 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.

(3) Included in "accumulated other comprehensive income".

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 6 million.

(5) Recorded in the statement of profit and loss.

(6) An amount lower than NIS 1 million.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. SECURITIES[1] (CONTINUED)

C. 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

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

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

Footnote:
(1) An amount lower than NIS 1 million.

12. SECURITIES[1] (CONTINUED)

D. 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

	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	(1)-	-	(1)-	-	-	-	-
Of foreign financial institutions	370	3	-	3	113	3	-	3
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	4,962	58	-	58	592	20	-	20
Of others in Israel	62	(1)-	-	(1)-	20	1	-	1
Of others abroad	228	2	-	2	85	2	-	2
Total bonds	13,933	96	-	96	977	30	-	30
Shares	4	(1)-	-	(1)-	17	1	-	1
Total available-for-sale securities	**13,937**	**96**	**-**	**96**	**994**	**31**	**-**	**31**

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

Footnote:

(1) An amount lower than NIS 1 million.

12. SECURITIES (CONTINUED)

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2016, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB New York.

Mortgage-backed Securities - MBS.A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

In accordance with the IDBNY Treasury Management and Asset-Liability Policy, investments in MBSs, excluding GNMAs, are limited to 75% of the total investment portfolio. The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae, a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investor's have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. SECURITIES (CONTINUED)

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

	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			
1.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 securities	**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 securities	**779**	**7**	**12**	**774**
Trading securities				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	(2)-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	61	(2)-	1	60
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)				
Collaterized bonds CLO	385	3	-	388
Total asset-backed available-for-sale securities (ABS)	**385**	**3**	**-**	**388**
Total mortgage and asset-backed securities	**8,588**	**21**	**91**	**8,518**

Footnotes:

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

(2) Amount lower than NIS 1 million

12. SECURITIES (CONTINUED)

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE and asset backed SECURITIES (CONTINUED)

	December 31, 2015			
	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	1,764	3	14	1,753
Securities issued by FHLMC and FNMA	783	5	3	785
Total mortgage-backed pass-through securities	**2,547**	**8**	**17**	**2,538**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,618	10	44	4,584
Other mortgage-backed securities	20	-	2	18
Total available-for-sale other mortgage-backed securities	**4,638**	**10**	**46**	**4,602**
Total available-for-sale MBS securities	**7,185**	**18**	**63**	**7,140**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	37	2	-	39
Securities issued by FHLMC and FNMA	26	2	-	28
Total mortgage-backed pass-through securities	**63**	**4**	**-**	**67**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	936	3	13	926
Other mortgage-backed securities	38	5	-	43
Total held-to-maturity other mortgage-backed securities	**974**	**8**	**13**	**969**
Total held-to-maturity MBS securities	**1,037**	**12**	**13**	**1,036**
Trading securities				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	[(2)]-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	61	[(2)]-	1	60
Total mortgage-backed trading securities (MBS)	**62**	**-**	**1**	**61**
Total mortgage-backed securities (MBS)	**8,284**	**30**	**77**	**8,237**
2. Asset-backed available-for-sale securities (ABS)				
Bonds of the CLO type	390	[(2)]-	1	389
Total asset-backed available-for-sale securities (ABS)	**390**	**-**	**1**	**389**
Total mortgage and asset-backed securities	**8,674**	**30**	**78**	**8,626**

Footnotes:

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

(2) Amount lower than NIS 1 million

12. SECURITIES (CONTINUED)

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

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

	December 31, 2016			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed securities (MBS):				
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 securities	**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 securities	**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	(1)-
Total mortgage-backed trading securities (MBS)	**43**	**1**	**1**	**-**
Total mortgage-backed securities (MBS)	**5,306**	**62**	**920**	**29**

Footnote:

(1) Amount lower than NIS 1 million

12. SECURITIES (CONTINUED)

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

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

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

Footnote:
(1) Amount lower than NIS 1 million

H. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 3,588 million (December 31, 2015: NIS 3,892 million). The balance of the said bonds included as of December 31, 2016, unrealized losses in the amount of NIS 11 million (December 31, 2015: NIS 28 million).

I. Most of the unrealized losses as at December 31, 2016 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of 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 it relevant consolidated companies 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 consolidated subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for bonds, may not be until maturity), the Bank and the relevant consolidated subsidiaries do not consider the impairment in value of these investments to be other than temporarily impaired at December 31, 2016 except for certain securities, in respect of which a provision for impairment in value has been included.

12. SECURITIES (CONTINUED)

In 2016, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 33 million (2015: NIS 160 million). For details regarding the provision made on the background of the classification of the securities of DBLA as assets held for sale, see Note 15 D below. For details as to loss on an other than temporary impairment, in respect of the shares of FIBI, see Note 38 below.

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

K. **Fair value presentation.** The balances of securities as of December 31, 2016, and December 31, 2015, include securities amounting to NIS 31,698 million and NIS 31,129 million, respectively, that are presented at fair value.

L. DATA REGARDING IMPAIRED BONDS - CONSOLIDATED

	December 31, 2016	December 31, 2015
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	110	25

13. 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 31 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

	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	-	[3]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	[3]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	-	[3]12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[4]3	[4]168	-	171	-	171
Group - other	362	-	[3]423	785	[5]-	785
Total allowance for Credit Losses	**1,541**	**168**	**435**	**2,144**	**[5]-**	**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) For details regarding changes in accounting policy in the matter of "classification of problematic debts and allowances for credit losses", see Note 1G.

(4) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 2 million, computed on a group basis in amount of NIS 94 million.

(5) An amount lower than NIS 1 million.

13. 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)

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

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 63,816 million and the allowance in its respect in an amount of NIS 796 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 236 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 3 million, computed on a group basis in amount of NIS 79 million.

13. 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 - THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2016					
Recorded amount of debts:						
Examined on a specific basis[(1)]	50,246	-	255	50,501	3,901	54,402
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	170	21,952	-	22,122	-	22,122
Group - other	6,247	-	13,200	19,447	-	19,447
Total debts*	**56,663**	**21,952**	**13,455**	**92,070**	**3,901**	**95,971**
* Of which:						
Restructured troubled debts	1,770	-	21	1,791	-	1,791
Other Impaired debts	473	-	-	473	-	473
Total balance of impaired debts	**2,243**	**-**	**21**	**2,264**	**-**	**2,264**
Debts in arrears of 90 days or more	45	265	67	377	-	377
Other problematic debts	908	-	55	963	-	963
Total Problematic debts	**3,196**	**265**	**143**	**3,604**	**-**	**3,604**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[(1)]	916	-	5	921	-	921
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[(2)]3	[(2)]151	-	154	-	154
Group - other	90	-	212	302	[(3)]-	302
Total allowance for Credit Losses	**1,009**	**151**	**217**	**1,377**	**[(3)]-**	**1,377**
Of which: in respect of impaired debts	301	-	-	301	-	301

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 52,138 million and the allowance in its respect in an amount of NIS 620 million computed on a group basis.

(2) 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 1 million, computed on a group basis in amount of NIS 81 million.

(3) An amount lower than NIS 1 million.

13. 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 - THE BANK (CONTINUED)

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2015					
Recorded amount of debts:						
Examined on a specific basis(1)	45,760	-	460	46,220	4,653	50,873
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	143	18,449	-	18,592	-	18,592
Group - other	4,708	-	12,012	16,720	-	16,720
Total debts*	**50,611**	**18,449**	**12,472**	**81,532**	**4,653**	**86,185**
* Of which:						
Restructured troubled debts	1,488	-	26	1,514	-	1,514
Other Impaired debts	834	-	2	836	-	836
Total balance of impaired debts	**2,322**	**-**	**28**	**2,350**	**-**	**2,350**
Debts in arrears of 90 days or more	28	303	49	380	-	380
Other problematic debts	530	-	40	570	-	570
Total Problematic debts	**2,880**	**303**	**117**	**3,300**	**-**	**3,300**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	898	-	8	906	-	906
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)2	(2)157	-	159	-	159
Group - other	70	-	176	246	(3)-	246
Total allowance for Credit Losses	**970**	**157**	**184**	**1,311**	**(3)-**	**1,311**
Of which: in respect of impaired debts	363	-	1	364	-	364

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 48,523 million and the allowance in its respect in an amount of NIS 542 million computed on a group basis.

(2) 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 67 million.

(3) An amount lower than NIS 1 million.

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

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2013[(1)]	1,709	255	354	2,318	3	2,321
Credit loss expenses	30	19	113	162	2	164
Accounting write-offs	(662)	(11)	(259)	(932)	-	(932)
Collection of debts written-off in previous years	441	-	203	644	-	644
Net accounting write-offs	(221)	(11)	(56)	(288)	-	(288)
Financial statements translation adjustments	27	-	-	27	-	27
Balance of allowance for credit losses, as at December 31, 2014[(1)]	**1,545**	**263**	**411**	**2,219**	**5**	**2,224**
Credit loss expenses (expenses reversal)	115	5	69	189	(2)	187
Accounting write-offs	(390)	(92)	(262)	(744)	-	(744)
Collection of debts written-off in previous years	404	-	189	593	-	593
Net accounting write-offs	14	(92)	(73)	(151)	-	(151)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at December 31, 2015[(1)]	**1,675**	**176**	**407**	**2,258**	**3**	**2,261**
Credit loss expenses (expenses reversal)	255	8	209	472	(3)	469
Accounting write-offs	(569)	(16)	(327)	(912)	-	(912)
Collection of debts written-off in previous years	345	-	180	525	-	525
Net accounting write-offs	(224)	(16)	(147)	(387)	-	(387)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at September 30, 2016	**1,702**	**168**	**469**	**2,339**	**[(2)]-**	**2,339**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2014	134	3	33	170	-	170
as at December 31, 2015	170	3	33	206	-	206
as at September 30, 2016	161	-	34	195	-	195

Footnotes:

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

(2) An amount lower than NIS 1 million.

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

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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2013	1,193	241	155	1,589	[(1)]-	1,589
Credit loss expenses (expenses reversal)	(3)	20	82	99	-	99
Accounting write-offs	(516)	(10)	(137)	(663)	-	(663)
Collection of debts written-off in previous years	365	-	104	469	-	469
Net accounting write-offs	(151)	(10)	(33)	(194)	-	(194)
Balance of allowance for credit losses, as at December 31, 2014	**1,039**	**251**	**204**	**1,494**	**[(1)]-**	**1,494**
Credit loss expenses	35	1	39	75	-	75
Accounting write-offs	(301)	(92)	(150)	(543)	-	(543)
Collection of debts written-off in previous years	339	-	105	444	-	444
Net accounting write-offs	38	(92)	(45)	(99)	-	(99)
Balance of allowance for credit losses, as at December 31, 2015	**1,112**	**160**	**198**	**1,470**	**[(1)]-**	**1,470**
Credit loss expenses	99	7	126	232	-	232
Accounting write-offs	(348)	(16)	(182)	(546)	-	(546)
Collection of debts written-off in previous years	280	-	89	369	-	369
Net accounting write-offs	(68)	(16)	(93)	(177)	-	(177)
Balance of allowance for credit losses, as at September 30, 2016	**1,143**	**151**	**231**	**1,525**	**[(1)]-**	**1,525**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2014	120	3	12	135	-	135
as at December 31, 2015	142	3	14	159	-	159
as at September 30, 2016	134	-	14	148	-	148

Note:
(1) An amount lower than NIS 1 million.

14. CREDIT GRANTED TO GOVERNMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
Credit to Israel government	617	502	617	502
Credit to foreign governments	120	13	115	-
Total credit granted to Governments	**737**	**515**	**732**	**502**

15. INVESTMENT IN INVESTEE COMPANIES AND DETAILS REGARDING THESE COMPANIES

A. CONSOLIDATED

	December 31, 2016			December 31, 2015		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Shares stated on equity basis(1)	157	-	157	142	-	142
Other investments:						
Shareholders' loans	(3)-	-	-	2	-	2
Total investments	**157**	**-**	**157**	**144**	**-**	**144**
Includes:						
Earnings accumulated since January 1, 1992	98	-	98	87	-	87
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for translation of foreign currency financial statements	-	-	-	(4)	-	(4)
Adjustment for Employee benefits	(1)	-	(1)	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	301	301	-	283	283
Book value(2)	-	160	160	-	142	142

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

(3) An amount lower than NIS 1 million.

15. INVESTMENT IN INVESTEE COMPANIES AND DETAILS REGARDING THESE COMPANIES (CONTINUED)

B. THE BANK

	December 31, 2016			December 31, 2015		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Shares stated on equity basis (including goodwill)[1]	79	7,663	7,742	75	7,187	7,262
Other investments:						
Subordinated debt notes and Capital notes	-	925	925	-	931	931
Total investments	**79**	**8,588**	**8,667**	**75**	**8,118**	**8,193**
Includes:						
Earnings accumulated since January 1, 1992	77	4,875	4,952	73	4,299	4,372
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	-	(32)	(32)	-	(1)	(1)
Financial statements translation adjustments	-	20	20	-	65	65
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	-	-	-	(1)	(1)
Adjustment for Employee benefits	-	(91)	(91)	(1)	(84)	(85)
Transactions with controlling shareholders	-	3	3	-	-	-
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142

Footnote:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency (defined in the past as "autonomous units") accumulated from the acquisition date up to December 31, 1991.

THE BANK'S SHARE OF PROFIT OR LOSS OF INVESTEE COMPANIES

	Consolidated			The Bank		
	2016	2015	2014	2016	2015	2014
	In NIS millions					
Bank's share in profit of investee companies (consolidated - affiliated companies)	17	9	53	725	583	508
Losses on impairment in value of investee companies	-	-	[2](26)	-	-	[2](26)
	17	9	27	725	583	482
Provision for taxes:						
Current taxes[1]	-	-	-	37	28	25
Deferred taxes	2	-	-	23	12	6
Total provision for taxes	2	-	-	60	40	31
Bank's share in profit net of tax effect of investee companies (consolidated - affiliated companies)	**15**	**9**	**27**	**665**	**543**	**451**

Footnotes:

(1) Current taxes in respect of IDB New York, in accordance with an agreement with the Tax Authorities – see Note 8 M hereunder.

(1) Principally in respect of the shares in FIBI,see Note 38.

15. INVESTMENT IN INVESTEE COMPANIES AND DETAILS REGARDING THESE COMPANIES (CONTINUED)

C. INFORMATION ON PRINCIPAL INVESTEE COMPANIES

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares Equity basis[1]	
		2016	2015	2016	2015	2016	2015
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	23	24
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,402	3,253
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	2,244	2,103
Israel Credit Cards Ltd.[4]	Credit card service	[12]71.83	[12]71.83	79.00	79.00	974	772
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	470	380
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	62	62
IDB (Swiss) in Liquidation [11][10]	Commercial bank, Switzerland	100.00	100.00	100.00	100.00	166	165
Companies held by Israel Discount Bank of New York:							
Discount Bank (America Latin) [5][7]	Commercial bank, Uruguay	100.00	100.00	100.00	100.00	-	248
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	2,938	2,941
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	6,122	6,157
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[13]	Credit card service	100.00	100.00	100.00	100.00	192	157
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	56	92

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

	Of which: excess of cost balance		Other investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity(8)		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	In NIS millions											
	-	-	-	-	1	1	-	-	-	-	-	-
	-	-	-	-	192	189	58	59	4	29	-	-
	-	-	84	84	193	210	-	-	(97)	(45)	-	-
	(9)142	(9)142	29	35	115	53	-	-	(10)	(1)	12	12
	(9)18	-	721	721	78	81	-	-	3	(4)	69	53
	-	-	-	-	1	1	-	3	-	-	-	-
	-	-	-	-	(1)	(41)	-	-	-	-	-	-
	-	-	-	-	4	5	-	-	-	34	-	-
	-	-	-	-	31	40	-	-	109	147	-	-
	-	-	-	-	4	46	-	-	(14)	25	-	-
	-	-	-	-	35	19	58	-	-	-	-	-
	-	-	84	84	36	23	72	-	-	-	-	-

(7) For details regarding the agreement for sale of the company and regarding the loss recorded on this sale, see Section D below.
(8) For details, see Note 10 A.
(9) Goodwill.
(10) For details regarding the agreement for sale of the company , see Section E below.
(11) For details regarding the agreement between the Swiss authorities and the United States Department of Justice, see Note 26 C 14 below.
(12) The remainder is held by FIBI.
(13) For details regarding the holding of a controlling interest in Diners, see Note 36 A below.

15. INVESTMENT IN INVESTEE COMPANIES AND DETAILS REGARDING THESE COMPANIES (CONTINUED)

D. Discount Bank Latin America (hereinafter: "DBLA"). An agreement for the sale of the operations of DBLA was signed on December 18, 2014. The transaction was consummated on November 1, 2015, following the fulfillment of the conditions precedent, including obtaining the various regulatory approvals. The consideration in respect of the transaction has been received.

The liquidation proceedings have begun upon completion of the transaction of the legal entity remaining in the wake of the transaction. Following the consummation of the transaction, the legal entity remained with assets and liabilities of negligible amounts and the conclusion of their sale and/or settlement, as the case may be, has not yet been completed.

A loss in the amount of US$17 million (NIS 66 million) has been recorded in the financial statements as of December 31, 2014, as a result of this agreement, an amount of NIS 50 million after the tax effect.

Moreover, as part of the decision to classify the assets and liabilities of DBLA as available-for-sale, the financial statements as of December 31, 2014 recorded a provision for the impairment of available-for-sale securities of DBLA in the amount of US$5.8 million (approx. NIS 23 million). In June 2016, DBLA distributed a dividend in the amount of US$63.8 million to IDB New York. This amount, representing the consideration in respect of the transaction, had been deposited with IDB New York prior to the dividend distribution and had no effect on the results of the Bank.

The agreement includes indemnification of the purchaser in respect of representations.

E. IDB (Swiss) Bank in liquidation. On November 23, 2015, IDB (Swiss) Bank, a subsidiary of the Bank, entered into an agreement pursuant to which it will sell its customer operations, as defined in the agreement. The consideration will be paid in installments, as prescribed in the agreement, and the final amount is subject to adjustments to be derived from the value of the assets sold on the dates prescribed in the agreement. The transaction was consummated on February 26, 2016. On date of completion, an amount of CHF 5.4 million was paid according to the agreement, comprising 60% of the amount determined in the agreement. Pursuant to the agreement, a second payment, in an amount of CHF 3.3 million is due to be received in august 2017. A third payment, in an amount of CHF 1.1 million, is due to be received in February 2018.

In view of the move for the sale of IDB (Swiss) Bank, the assets and liabilities of IDB (Swiss) Bank as of September 30, 2015 (and since then), which are related to activity with customers, are classified as held for sale.

Expenses and allowance for expenses in the amount of 10 million Swiss francs (NIS 41 million) were recorded in the financial statements as of December 31, 2015, as a result of this move, an amount of NIS 33 million after the tax effect. Part of the consideration for the sale was recognized in the first quarter of 2016. The balance of the consideration is to be received in the future, subject to conditions stated in the agreement.

The transaction includes indemnification of the purchaser, limited in amount and time, in respect of different representations.

Following the conclusion of the transaction, as stated, a Liquidator has been appointed for IDB (Swiss) Bank by the shareholders, and the name of the corporation has been changed to "IDB (Swiss) Bank – in liquidation". With the fulfillment of conditions precedent, the confirmation by the Swiss Financial Market Supervisory Authority (FINMA) for the termination of supervision over IDB (Swiss) Bank – in liquidation was received. As from December 20, 2016 IDB (Swiss) Bank – in liquidation discontinued all banking activities and the Bank acts to liquidate the corporation.

F. **The merger of Discount Underwriting and Issuing Ltd.** An agreement was signed on November 15, 2015, for the merger of with Clal Finance Underwriting Ltd. with and into Discount Underwriting and Issuing Ltd. ("Discount Underwriting"). In the framework of the transaction, Discount Capital (formerly known as: DCMI) invested in Discount Underwriting an amount of NIS 22 million, in consideration for the issue of shares and its rate of holdings in equity and in voting rights in Discount Underwriting was reduced to 55%.

All conditions precedent to the merger transaction were fulfilled on April 5, 2016, except for the approval by the Registrar of Companies, which was received on May 3, 2016.

At date of consummation of the merger, the agreement between the shareholders of Discount Underwriting, which regulates the relations between the shareholders of Discount Underwriting, entered into effect. Within the framework of which were determined, among other things, limitation on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, which may be exercised following the end of four years from date of signing the agreement.

16. BUILDINGS AND EQUIPMENT

A. COMPOSITION

	Consolidated				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2014	2,236	843	906	3,458	7,443
Additions	42	37	85	223	387
Assets designated for sale	(48)	-	-	-	(48)
Disposals	(2)	(38)	(17)	(28)	(85)
Balance as at December 31, 2015	**2,228**	**842**	**974**	**3,653**	**7,697**
Additions	156	49	104	270	579
Assets designated for sale	(85)	-	-	-	(85)
Translation adjustments	(1)	(1)	(1)	(2)	(5)
Disposals	(2)	(26)	(73)	(60)	(161)
Balance as at December 31, 2016	**2,296**	**864**	**1,004**	**3,861**	**8,025**
Depreciation and impairment loss:					
Balance as at December 31, 2014	1,119	584	748	2,701	5,152
Depreciation for the year	71	45	79	286	481
Assets designated for sale	(27)	-	-	-	(27)
Disposals	(2)	(37)	(17)	(28)	(84)
Balance as at December 31, 2015	**1,161**	**592**	**810**	**2,959**	**5,522**
Depreciation for the year	64	41	72	252	429
Reversal of impairment loss	(3)	-	-	-	(3)
Assets designated for sale	(58)	-	-	-	(58)
Translation adjustments	(1)	(1)	(1)	(1)	(4)
Disposals	(2)	(26)	(71)	(57)	(156)
Balance as at December 31, 2016	**1,161**	**606**	**810**	**3,153**	**5,730**
Book value:					
Balance as at December 31, 2014	**1,117**	**259**	**158**	**757**	**2,291**
Balance as at December 31, 2015	**1,067**	**250**	**164**	**694**	**2,175**
Balance as at December 31, 2016	**1,135**	**258**	**194**	**708**	**2,295**
Average weighted depreciation rate for year 2015	4.1%	9.7%	20.5%	20.0%	12.0%
Average weighted depreciation rate for year 2016	4.3%	9.4%	21.0%	20.2%	11.9%

Footnote:
(1)Includes installations and leasehold improvements.

16. BUILDINGS AND EQUIPMENT (CONTINUED)

A. COMPOSITION (CONTINUED)

	The Bank				
	Buildings and land [(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2014	1,693	453	654	2,579	5,379
Additions	15	20	69	156	260
Assets designated for sale	(48)	-	-	-	(48)
Disposals	(2)	(37)	(13)	-	(52)
Balance as at December 31, 2015	**1,658**	**436**	**710**	**2,735**	**5,539**
Additions	98	30	86	171	385
Assets designated for sale	(82)	-	-	-	(82)
Disposals	-	(22)	(54)	(39)	(115)
Balance as at December 31, 2016	**1,674**	**444**	**742**	**2,867**	**5,727**
Depreciation and impairment loss:					
Balance as at December 31, 2014	845	285	533	2,039	3,702
Depreciation for the year	45	27	60	209	341
Assets designated for sale	(27)	-	-	-	(27)
Disposals	(2)	(36)	(13)	-	(51)
Balance as at December 31, 2015	**861**	**276**	**580**	**2,248**	**3,965**
Depreciation for the year	40	25	52	181	298
Reversal of impairment loss	(2)	-	-	-	(2)
Assets designated for sale	(57)	-	-	-	(57)
Disposals	-	(22)	(52)	(39)	(113)
Balance as at December 31, 2016	**842**	**279**	**580**	**2,390**	**4,091**
Book value:					
Balance as at December 31, 2014	**848**	**168**	**121**	**540**	**1,677**
Balance as at December 31, 2015	**797**	**160**	**130**	**487**	**1,574**
Balance as at December 31, 2016	**832**	**165**	**162**	**477**	**1,636**
Average weighted depreciation rate for year 2015	3.5%	9.1%	19.6%	19.7%	11.4%
Average weighted depreciation rate for year 2016	3.3%	9.0%	20.3%	20.0%	11.1%

Footnote:

(1)Includes installations and leasehold improvements.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2016-2058.

16. BUILDINGS AND EQUIPMENT (CONTINUED)

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	127	127	38	38
Balance of provision for impairment loss	13	(1)16	11	(1)13
D. Financial leasing rights:				
Balance of non-capitalized leasehold	9	10	7	7
Balance of capitalized leasehold	232	183	87	99
E. Depreciated balance of not yet registered buildings	246	165	141	58
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	12	20	11	17
G. Depreciated balance of buildings and equiptment designated for sale	27	29	25	21
Reversal of impairment loss during the year	3	2	2	-
H. The cost of in-house development of computer software:				
The cost of software put into operation	2,858	2,711	2,537	2,397
Accumulated depreciation	(2,416)	(1)(2,219)	(2,156)	(1)(1,992)
Depriciable amount	442	492	381	405
Accumulated costs in respect of software under developtment	92	52	19	18
Total cost of in-house development of computer software	534	544	400	423
I. Gross value of fully depreciated fixed assets still in use	3,058	2,507	2,182	1,764
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	111	7	97	7
Cost of equipment	61	46	61	46

	for the year ended December 31		
	2016	2015	2014
	in NIS millions		
K. Detail of operating lease contracts(2):			
Recognized operating lease expenses (3)			
Consolidated	138	140	141
The Bank	89	91	95

Footnotes:

(1) reclassified.

(2) Details of future non-cancellable lese expenses, see note 26.c.1.

(3) Includes ninimum lease payment and contigent rent.

17. INTANGIBLE ASSETS AND GOOWILL

	Consolidated		
	Goodwill[(1)]	Customer relations	Total
	in NIS millions		
Cost			
Balance as at December 31,2014	**283**	**78**	**361**
Sale of activities[(2)]	-	(78)	(78)
Balance as at December 31,2015	**283**	**-**	**283**
Acquisitions in the framework of business combination	18	-	18
Balance as at December 31,2016	**301**	**-**	**301**
Amortization and losses on impairment			
Balance as at December 31,2014	**141**	**78**	**219**
Sale of activities[(2)]	-	(78)	(78)
Balance as at December 31,2015 and 2016	**141**	**-**	**141**
Book value			
Balance as at December 31,2014, 2015 and 2016	**142**	**-**	**142**
Balance as at December 31,2016	**160**	**-**	**160**

Footnotes:
(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an affiliated company, included in the item "investment in affiliated companies").
(2) For details regarding the agreement for sale of activities of affiliated companie, see Note 15 E.

18. OTHER ASSETS

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	In NIS millions			
Net deferred tax assets (see Note 8 J)	1,636	1,635	1,123	1,140
Excess advance tax payments over current provisions	218	342	174	299
Excess assets of the plan over liabilities in respect of employee benefits (see Note 23 L)	-	4	-	-
Issue costs and discount expenses of subordinated capital notes	10	26	9	15
Income receivable	146	168	64	91
Surrender value of life assurance policies owned by a consolidated subsidiary	715	706	-	-
Assets in respect of the "Maof" market operations	298	59	298	59
Gold deposit	336	393	336	393
Other debtors and debit balances	230	363	115	173
Total other assets	**3,589**	**3,696**	**2,119**	**2,170**

18A. ASSETS HELD FOR SALE

IDB (Swiss) Bank. The assets and liabilities of IDB (Swiss) Bank, which are related to activity with customers, are classified as held for sale. For details regarding the agreement for sale of the operations of IDB (Swiss) Bank, see Note 15 E above.

Following are data regarding assets and liabilities classified as held for sale (which includes also assets of the Bank in a negligible amount):

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
Assets classified as held for sale				
Cash and deposits with banks	-	-	-	-
Securities	-	-	-	-
Credit to the public, Net	-	400	-	-
Credit to Governments	-	-	-	-
Buildings and equipment	27	29	25	21
Assets in respect of derivative instruments	-	3	-	-
Other assets	-	-	-	-
Total	**27**	**432**	**25**	**21**
Liabilities classified as held for sale				
Deposits from the public	-	1,672	-	-
Deposits from banks	-	-	-	-
Liabilities in respect of derivative instruments	-	3	-	-
Other liabilities	-	-	-	-
Total	**-**	**1,675**	**-**	**-**

19. DEPOSITS FROM THE PUBLIC

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

	Consolidated		The Bank	
	December 31			
	2016	2015	2016	2015
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	32,673	30,726	27,012	25,584
Interest bearing	30,957	26,195	29,115	24,705
Total demand deposits	**63,630**	**56,921**	**56,127**	**50,289**
Time deposits	82,268	75,332	67,226	62,490
Total deposits in Israel*	**145,898**	**132,253**	**123,353**	**112,779**
* Of which:				
Private individuals deposits	83,717	(2)79,101	71,769	67,355
Institutional bodies deposits	13,185	11,735	9,070	7,246
Corporations and others deposits	48,996	(2)41,417	42,514	38,178
Outside Israel				
Demand deposits:				
Non-interest bearing	4,489	(1)4,069	-	-
Interest bearing	13,499	(1)13,956	-	-
Total demand deposits	**17,988**	**18,025**	**-**	**-**
Time deposits	8,432	(3)7,597	-	-
Total deposits outside Israel	**26,420**	**25,622**	**-**	**-**
Total deposits from the public	**172,318**	**157,875**	**123,353**	**112,779**

Footnotes:

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

(2) Reclassified - sorting from privet individual to corporations.

(3) Reclassified - see Note 1 G.

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

	December 31	
	2016	2015
In NIS millions	In NIS millions	
Deposit limit	Balance	
Up to 1	65,085	(1)61,475
Over 1 up to 10	49,980	(1)46,662
Over 10 up to 100	24,462	(1)23,344
Over 100 up to 500	19,998	17,595
Over 500	12,793	8,799
Total	**172,318**	**157,875**

Note:

(1) Reclassified - see Note 1 G.

20. DEPOSITS FROM BANKS

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	2,451	1,480	189	460
Time deposits	101	252	299	61
Outside Israel				
Commercial banks:				
Deposits on demand	1,093	1,133	1,080	904
Schedule deposits	1,437	622	38	56
Acceptances	183	263	100	192
Central banks:				
Time deposits	77	157	-	-
Total deposits from banks	**5,342**	**3,907**	**1,706**	**1,673**

21. BONDS AND SUBORDINATED CAPITAL NOTES

			Consolidated		The Bank	
	Average maturity(1)	Internal rate of return(1)	December 31		December 31	
	years	%	2016	2015	2016	2015
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	3.19	4.75	1,823	2,102	327	326
In Israeli currency, linked to CPI	3.98	5.26	4,569	5,329	1,064	1,133
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI(2)	5.09	5.71	1,787	1,793	1,787	1,793
Credit-linked notes (CLN):						
In non-linked Israeli currency	0.01	2.40	229	282	229	282
In foreign currency, Euro	2.50	3.81	90	64	90	64
Total bonds and capital notes(3)			**8,498**	**9,570**	**3,497**	**3,598**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2016.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 6,580 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2015: NIS 7,617 million)

22. OTHER LIABILITIES

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
Net provision for deferred taxes (see Note 29 J)	23	18	19	17
Excess of current tax provisions over advance payments	41	11	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 L)	2,531	2,474	1,988	1,882
Deferred income	139	131	79	75
Payables for credit card activity	5,668	5,930	3,074	2,978
Provision for doubtful debts in respect of guarantees	195	206	148	159
Expenses payable	764	618	382	274
Liabilities in respect of "Maof" market operations	298	59	298	59
Liabilities stemming from "Market making" activity	285	179	285	179
Other payables and receivables	1,123	1,359	395	313
Total other liabilities	**11,067**	**10,985**	**6,668**	**5,936**

23. EMPLOYEE BENEFITS

A. Following is a description of the main benefits granted to employees of the group:

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month’s salary for each year of employment, is fully covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the redemption value of the insurance policies and amounts accumulated in pension funds are not included in the balance sheet since they are neither controlled nor managed by the Bank or its subsidiaries.

(2) Members of the Bank’s Management are entitled to the customary severance payments, while several of whom are entitled also to an "adjustment" bonus of between 4 to 8 months’ salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see item E below, in the matter of the approved remuneration policy). The pension liability of foreign subsidiaries, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months’ salaries, and in respect of which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

(5) A number of the Bank’s employees are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year in real terms.

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation" days, according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of regular employees as from January 1, 2012, shall not be entitled to a "jubilee award".

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Law - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees of the Bank who were engaged as or converted to the status of regular employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

23. EMPLOYEE BENEFITS (CONTINUED)

(8) Several of the subsidiaries have adopted employee remuneration plans, according to which the General Managers and/or other employees of these subsidiaries are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

(9) **"Annuity" type retirement plan.** A number of retirees in the period from 2007 to 2011 (31 retirees as of December 31, 2016) have chosen the full or combined annuity option, within the framework of which, the capital payment are converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) **2011 retirement plan.** A part of the retirees within the framework of the 2011 retirement plan (123 employees as of December 31, 2016), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014 retirement plan.** A part of the retirees under the 2014 retirement plan, have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

With respect to pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) an insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

The terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without payment to kinsmen;
- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

(12) **2016 retirement plan.** A part of the retirees under the 2016 retirement plan, have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment in identical terms to the terms of the 2014 retirement plan.

(13) IDB New York had a liability for the payment of pensions to its employees, in respect of which it has established a pension fund, in which contributions by the employer and by the employees were deposited. The annual deposits with the fund were based on calculations made by an independent actuary. A decision was taken by the company during the third quarter of 2016, to withhold the rights accumulated to that date in the said budgetary pension plan. This move led to the reduction in the actuarial liability by an amount of US$13.5 million (approx. NIS 51 million).

23. EMPLOYEE BENEFITS (CONTINUED)

Following are principal details concerning the said liability:

	As at December 31	
	2016	2015
	in US$ millions	
The liability amount	48	55
Fair value of the program's assets	43	38
Excess liabilities over the program's assets	**5**	**17**
	%	%
The annual discount rate	4.15	4.23
The anticipated annual rate of return on the funds assets	5.36	6.20
The annual rate of increase in employees payroll	4.00	4.00

B. DETAILS REGARDING THE BENEFITS

	Consolidated		The Bank	
	December 31			
	2016	2015	2016	2015
	in NIS millions			
Severance pay:				
The liability amount	3,367	3,420	2,461	2,538
Fair value of the program's assets	2,052	2,307	1,558	1,794
Excess liabilities over the program's assets	**1,315**	**1,113**	**903**	**744**
Excess liabilities included in the item "other liabilities"	**1,315**	**1,117**	**903**	**744**
Excess assets of the program included in the item "other assets"	**-**	**4**	**-**	**-**
Amount that included in the other liabilities item:				
Long-service ("jubilee") awards	352	439	350	349
Post retirement benefits to retirees	715	762	636	681
Vacation	142	149	99	108
Illness	7	7	-	-
Total Excess liabilities included in the other liabilities item (Note 22)	**2,531**	**2,474**	**1,988**	**1,882**
Of which – in respect of benefits to employees abroad	56	106	-	-
Excess assets of the program included in the item "other assets" (Note 18)	**-**	**4**	**-**	**-**

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED

1. COMMITMENT AND FINANCING STATUS

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	For the year ended December 31			
	2016	2015	2016	2015
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,420	3,464	762	808
Cost of service	89	136	7	15
Cost of interest	106	118	31	32
Actuarial loss (profit)	504	(72)	(35)	(45)
Changes in foreign currency exchange rates	(3)	1	(1)	(2)-
Benefits paid	(697)	(227)	(45)	(32)
Reductions	(52)	-	(4)	(16)
Commitment at the end of the year in respect of anticipated benefits	**3,367**	**3,420**	**715**	**762**
Commitment at the end of the year in respect of accumulated benefits(1)	**2,870**	**2,883**	**715**	**762**

Footnotes:
(1) The obligation in respect of a cumulative benefit differs from the obligation in respect of a contractual benefit in that it does not include any assumptions with regard to the future remuneration levels.
(2) Amount lower than NIS 1 million

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

	For the year ended December 31	
	2016	2015
	Severance pay, retirement and pension	
	in NIS millions	
Fair value of the program's assets at the beginning of the period	2,307	2,393
Actual return on the program's assets	60	24
Changes in foreign currency exchange rates	(2)	1
Deposits by the Bank to the plan	37	38
Benefits paid	(350)	(149)
Fair value of the program's assets at the end of the year	**2,052**	**2,307**
Financing status - liability, net, recognized at the end of the year	**(1,315)**	**(1,113)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2016	2015	2016	2015
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other assets"	-	4	-	-
Amounts recognized in the item "other liabilities"	(1,315)	(1,117)	(715)	(762)
Net liability recognized at the end of the year	**(1,315)**	**(1,113)**	**(715)**	**(762)**

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

1. COMMITMENT AND FINANCING STATUS (CONTINUED)

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

	December 31			
	2016	2015	2016	2015
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Actuarial loss, net	(658)	(298)	(68)	(105)
Net liability in respect of the transition[(1)]	(52)	(125)	-	(10)
Net cost (credit) in respect of prior service	-	(2)	6	7
Closing balances of accumulated other comprehensive income	**(710)**	**(425)**	**(62)**	**(108)**

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

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

	December 31	
	2016	2015
	Severance pay, retirement and pension	
	in NIS millions	
Commitment in respect of anticipated benefits	3,228	3,297
Commitment in respect of cumulative benefits	2,758	2,778
Fair value of the program's assets	1,919	2,180

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

	December 31	
	2016	2015
	Severance pay, retirement and pension	
	in NIS millions	
Commitment in respect of anticipated benefits	3,367	3,297
Fair value of the program's assets	2,051	2,180

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

2. EXPENSE FOR THE YEAR

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

	For the year ended December 31		
	2016	2015	2014
Severance pay, retirement and pension payments			
Cost of service	89	136	204
Cost of interest	106	118	134
Anticipated return on assets of the plan	(77)	(111)	(116)
Amortization of unrecognized amounts:			
Net actuarial loss (profit)	40	10	(3)
Cost of prior service	1	1	1
Total amortization of unrecognized amounts	**41**	**11**	**(2)**
Other, including loss from reduction or settlement	(2)143	-	481
Total net cost of benefits	**302**	**154**	**701**
Total expense regarding defined deposits pension plans	**153**	**144**	**149**
Total expenses included in respect Severance pay, retirement and pension payments	**455**	**298**	**850**
Severance pay, retirement and pension payments			
Cost of service	7	15	29
Cost of interest	31	32	35
Amortization of unrecognized amounts:			
Net actuarial loss	9	6	(1)-
Cost of prior service	(1)	(1)	(2)
Total amortization of unrecognized amounts	**8**	**5**	**(2)**
Other, including income from reduction or settlement	(1)	(4)	(1)
Total net cost of benefits	**45**	**48**	**61**
Total expenses included in respect Severance pay, retirement and pension payments	**500**	**346**	**911**

Footnotes:

(1) Amount lower than NIS 1 million.

(2) Of which settlement NIS 141 million.

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

2. EXPENSE FOR THE YEAR (CONTINUED)

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

	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (profit) for the year	542	310	26	(29)	86	24
Amortization of actuarial loss	(40)	(9)	3	(9)	(11)	(1)-
Amortization of credit (cost) in respect of prior service	(1)	(1)	(1)	1	1	2
Amortization of net liability in respect of the transition	(73)	(295)	(17)	(10)	(131)	-
Changes in foreign currency exchange rates	(1)-	(1)	(1)-	(1)-	(1)-	(1)-
Other, including loss (profit) from reduction or settlement	(143)	-	-	1	-	(1)-
Total recognized in other comprehensive loss (income)	**285**	**4**	**11**	**(46)**	**(55)**	**26**
Total net cost of benefits(2)	**302**	**154**	**701**	**45**	**48**	**61**
Total amount recognized in net cost of benefits and in other comprehensive income	**587**	**158**	**712**	**(1)**	**(7)**	**87**

Footnotes:

(1) Amount lower than NIS 1 million

(2) See item 2.1 above.

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

	Severance pay, retirement and pension	Post retirement retiree benefits
	in NIS millions	
Net actuarial loss	49	3
Reduction	30	-
Net cost in respect of prior service	-	(1)
Total amount expected to be amortized from other comprehensive income	**79**	**2**

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

	December 31			
	2016	2015	2016	2015
	Severance pay, retirement and pension		Post retirement retiree benefits	
Discount rate	1.66%-2.22%	1.76%-2.49%	1.32%-2.32%	1.45%-2.59%
Retirement rate	0.35%-19.65%	0.18% - 19.17%		
Remuneration growth rate	2.11%	2.32%		

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

3. ASSUMPTIONS (CONTINUED)

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 (CONTINUED)

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

	December 31					
	2016	2015	2014	2016	2015	2014
	Severance pay, retirement and pension			Post retirement retiree benefits		
Discount rate	1.32%-2.49%	1.10%-2.65%	2.42%-2.57%	1.07%-2.59%	0.78%-2.76%	2.09%-3.17%
Anticipated long-term return on the plan's assets	3.37%	4.47%	7.14%			
Remuneration growth rate	2.11%	2.36%	2.16%-2.75%			

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

	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 31							
	2016	2015	2016	2015	2016	2015	2016	2015
	in NIS millions							
Discount rate	(329)	(321)	(48)	(83)	341	336	49	84
Retirement rate	120	49	(1)	(1)	(121)	(49)	1	1
Remuneration growth rate	339	313	-	2	(304)	(294)	-	(1)

4. THE PLAN'S ASSETS

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2016			December 31, 2015		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	46	7	53	89	8	97
Shares	655	14	669	584	17	601
Bonds:						
Government	562	16	578	765	15	780
Corporate	595	120	715	649	133	782
Total bonds	1,157	136	1,293	1,414	148	1,562
Other	9	28	37	7	40	47
Total	**1,867**	**185**	**2,052**	**2,094**	**213**	**2,307**

23. EMPLOYEE BENEFITS (CONTINUED)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

4. THE PLAN'S ASSETS (CONTINUED)

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2017

	Allocation target in %	% of the plan's assets	
	Year 2017	December 31, 2016	December 31, 2015
Type of asset			
Cash and deposits with banks	0.8%-17.6%	2.6%	4.2%
Shares	24.7% - 35.4%	32.6%	26.0%
			Bonds:
Government	23.8% - 31.4%	28.2%	33.8%
Corporate	31.8% - 42.5%	34.8%	33.9%
Total bonds	55.6% - 73.9%	63.0%	67.7%
Other	0.6%-2.2%	1.8%	2.1%
Total		**100.0%**	**100.0%**

5. CASH FLOW

5.1 DEPOSITS

	Forecast[1]	Actual deposits	
		For the year ended December, 31	
	2017	2016	2015
	Severance pay, retirement and pension payments		
	in NIS millions		
deposits	29	37	38

Footnote:

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

5.2 BENEFITS EXPECTED TO BE PAID BY THE BANK IN THE FUTURE

	Severance pay, retirement and pension payments
Year	In NIS millions
2017	85
2018	255
2019	188
2020	150
2021	148
2022-2026	886
2027 and thereafter	1,569
Total	**3,281**

D. Remuneration plan for members of the Bank's Management (2011-2013)

1. **General.** On August 31, 2011 the Board of Directors decided to approve the remuneration plan for members of the Bank's Management and for the Bank's Internal Auditor, which included an annual award and a long-term award. The remuneration plan was a three year plan covering the years 2011-2013.

23. EMPLOYEE BENEFITS (CONTINUED)

2. **Amount of the annual award for 2013.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2013, in a total amount of NIS 5.2 million. In accordance with the terms of the plan, an amount of NIS 3.1 million out of the above award sum was paid in April 2014, and the balance was divided into two deferred amounts the payment of which is subject to the fulfillment of threshold conditions in respect of the years 2014 and 2015, respectively. The said amount is net of a deduction of 20% of the annual award and the denial of the discretionary award.

   Threshold conditions in respect of 2014 have been fulfilled, creating entitlement to the payment of the first deferred installment.

   Threshold conditions in respect of 2015 have been fulfilled, creating entitlement to the payment of the second deferred installment.

3. **Long-term award in respect of the years 2011-2013.** Members of the Bank`s Management, the Internal Auditor, the Chief Risk Officer and the Chief Accountant, were entitled to a long-term award in respect of the years 2011-2013, in a total amount of NIS 5.1 million, which was paid in full in April 2014. The said amount is after the elimination of the proportionate part of the long-term award in respect of 2012, and a reduction of 20% of the balance in respect of the years 2011 and 2013.

4. **The annual award in respect of 2014.** The Bank's Board of Directors has decided that no award to officers of the Bank shall be paid for the year 2014.

E. **Remuneration policy for officers of the Bank (2014-2016).** A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve the remuneration policy for officers of the Bank, and in accordance with Section 267A of the Companies Act, 1999, after its approval by the Board of Directors with the recommendation of the Remuneration Committee. Among other things, the plan included the following components: the maximum monthly salary and the considerations in determining it; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total of up to eight monthly salaries, where the engagement terminates within a period of up to two years from inception, and up to four monthly salaries following the end of two years, as stated; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers was based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank, upon a basic award component and a discretionary award component. Special instructions have been determined, within the framework of the remuneration policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to all officers together and to each one of the officers has been determined, also included is the possibility for the distribution of special awards: award in respect of special profits or losses (positive or negative award), an award for special contribution and an award in special circumstances. In the framework of the policy arrangements for the spreading of the annul award were determined, including – a cash payment of 50% of the total awards granted in respect of an award year, to be made soon after the publication of the Bank`s financial statements for the award year, and deferment of the remaining 50% paid in three equal installments over the three years following the entitlement date, and which were linked to changes in the price of the Bank`s shares; instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO.

The principles detailed in the remuneration plan applied to the terms of office and employment of officers of the Bank, approved as from the date of approval of the remuneration policy. In no way did the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, which existed at date of approval of the policy.

The approved remuneration policy did not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries. Notwithstanding, the principles of the Bank`s remuneration policy were adopted as part of the Group's remuneration policy, which applied, with the required adjustments, to officers of the Bank`s subsidiaries in Israel.

Remuneration policy for officers of the Bank (2017-2019). The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank, in accordance with Section 267A of the Companies Act.

The Bank's remuneration policy is, inter alia, subject to the provisions of the Companies Act, to Proper Conduct of Banking Business Directive No. 301A in the matter of the remuneration policy of a banking corporation (hereinafter: "Directive of the Supervisor" or "Directive 301A"), as amended from time to time, and to the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), published on April 12, 2016. The remuneration policy replaces the Bank's previous remuneration policy (see above), effective for a period of three years since date of approval by the General Meeting. The formation of a new remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in Directive 301A and to the provisions of the Remuneration Act.

The main differences between the approved remuneration policy and the previous remuneration policy are:

- Limitations were added regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act.

23. EMPLOYEE BENEFITS (CONTINUED)

- Changes were made in the terms of the award plan for officers who are subject to the President & CEO, as determined in the remuneration policy. In this framework, changes have been made to the threshold terms for the payment of awards, to the components of the annual award, and the maximum amounts for the annual awards to officers, as above, have been reduced.
- An authority was added to the Remuneration Committee and to the Board of Directors to approve an award to an officer who is subject to the President & CEO, not on the basis of measurable criteria up to a maximum of three monthly salaries to an officer as above, and subject to the award budget, by use of discretion as stated in the remuneration policy.
- An authority was added to the President & CEO to approve immaterial changes in the terms of office of officers subject to her, without requiring approval of the Remuneration Committee, in accordance with the Companies Regulations (Relief regarding transactions with interested parties), 2000.
- Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable in accordance with criteria determined in the remuneration policy, in accordance with the terms of Directive 301A.
- The mechanism for deferment and the spreading of variable retirement benefits and awards was revised so as not to require the deferment and spreading of variable remuneration that does not exceed 40% of the fixed annual remuneration, where the remuneration agrees with the requirements of the Remuneration Act regarding the maximum amount of remuneration. Furthermore, it is no longer required that one half of the variable remuneration in respect of a calendar year shall be granted in the form of a capital remuneration.
- The possibility for the granting of a thirteen's month salary to officers of the Bank was added.
- Additional instructions were introduced allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

F. Award plan for members of Bank's Management and for the Internal Auditor (2015-2016)

1. General

On February 2, 2015, the Bank's Board of Directors received the recommendation of the remuneration committee and approved the award plan for members of Management and for the Internal Auditor for the years 2015-2016 ("the plan"). The Board of Directors received the recommendations of the remuneration committee and approved also the targets for the purpose of the awards at the Bank for the said years. The remuneration committee and the Board of Directors are entitled to examine from time to time the components of the plan and to make changes or modifications to the plan or to the determined indices. The plan is subject to amendments which may apply from time to time under the law or instructions applying to the Bank. The plan prescribes instructions regarding the computation in cases of beginning or termination of office.

2. The annual award to Executive Vice Presidents

A. General. The annual award to Executive Vice Presidents (including the Internal Auditor) includes four components:

- Award computed according to indices based on the Bank's results ("the collective award");
- Award computed according to the Executive Vice President's attainment of the personal indices determined for him ("the personal award");
- Additional award, to be distributed on the basis of recommendations by the Bank's President & CEO ("the qualitative award") out of the annual award budget ("the qualitative award budget");
- Award equal to one monthly salary conditional upon complying with entitlement terms ("the basic award").

The annual award shall be approved in each year by the remuneration committee and the Board of Directors, proximate to the date of publication of the financial statements.

B. Minimum terms for entitlement to the annual award. Entitlement of the Executive Vice Presidents to annual awards in respect of a particular award year is conditional upon the cumulative fulfillment in that year of all the following minimum terms**:**

(1) The rate of return on equity shall not be lower than the higher of 7% or the weighted return on equity (computed according to instructions prescribed in the plan) at the other four major banks in the award year, after deducting 2%.

(2) The Bank's total capital adequacy ratio and the core capital ratio, in accordance with the Bank's annual consolidated financial statements for the year of award, shall not be lower than the minimum ratios determined in the instructions of the Supervisor of Banks.

(3) The efficiency ratio shall not exceed 78%.

(4) The Executive Vice President has obtained a "pass" mark for the qualitative index, which includes the contribution of the Executive Vice President to the implementation of processes in matters of corporate governance, attainment of the Bank's general targets in matters of risk management, compliance with the law, regulatory instructions and procedures of the Bank.

3. The collective award

The annual collective award for each Executive Vice President will be restricted to an amount that shall not exceed six monthly salaries of the Executive Vice President ("upper limit of the collective award").

23. EMPLOYEE BENEFITS (CONTINUED)

The collective indices. The collective award shall be computed on the basis of five indices based on measurable ratios derived from the Bank's performance, on the basis of the consolidated financial statements and the Bank's standalone statements (the percentages in parenthesis below represent the weight of each index out of the upper limit of the collective award):

(1) Return on equity (25%);

(2) Efficiency ratio (25%) – computed in accordance with the manner in which the ratio is measured and reported in the financial statements for the award year, net of extraordinary profit or losses;

(3) Operating and other expenses (25%) – computed on the basis of the total amount of operating and other expenses, net of extraordinary profit or losses and nonrecurring provisions in the award year and in accordance with the Bank's standalone financial statements for that year;

(4) Core capital ratio (10%);

(5) Commission income (15%) – computed on the basis of total income from commissions, net of extraordinary profit or losses in the award year, in accordance with the Bank's consolidated financial statements for that year.

The remuneration committee and the Board of Directors are entitled to examine at the beginning of the award year, whether the said goals require modification, or whether other indices should be introduced.

A target goal shall be determined for each index in accordance with the goal approved for this index, according to which the minimum and maximum goals shall be computed for that index.

Attainment of the minimum goal, the targeted goal and the maximum goal in a particular award year, shall entitle the Executive Vice Presidents to 30%, 80% and 100%, respectively, of the weight of the index of the upper limit of the collective award.

Any result in the range between the minimum goal and the targeted goal, and any result in the range between the targeted goal and the maximum goal, shall entitle the Executive Vice Presidents to a proportionate share, computed on a linear basis (in the range between 30% and 80% and in the range between 80% and 100%, respectively).

4. The personal award

The personal award to each Executive Vice President shall be restricted to an amount not exceeding three monthly salaries for each Executive Vice President. The personal award for each Executive Vice President shall be computed according to indices focusing on the goals set for the division under the charge of that Executive Vice President in the said year. Proximate to the beginning of each award year, the Bank's President & CEO shall recommend, for each Executive Vice President separately, the personal indices composing the personal award, targets for computation and their weight. These recommendations would be submitted for approval of the remuneration committee and the Board of Directors.

Recommendations with respect to the Internal Auditor, the Chief Risk Officer and the Chief Accountant ("supervision and control Executive Vice Presidents") shall be made by the following functions ("the relevant appointees"): for the Bank's Internal Auditor– the audit committee; for the Chief Risk Officer – the risk management committee in consultation with the Bank's President & CEO; for the Bank's Chief Accountant – the Bank's President & CEO.

For each personal index based on measurable criteria, minimum, targeted and maximum goals shall be determined, as well as the weight of the index of the total personal indices used for computing the personal award (similarly to the computation format for the collective indices).

5. The qualitative award and the budget for the qualitative award

(a) Upper limit of the budget for the qualitative award. The budget for the qualitative award in respect of each award year shall not exceed one-sixth of the total actual collective award to all Executive Vice Presidents in respect of that award year. In an award year in which all Executive Vice Presidents shall not be entitled to any collective award, no budget for the qualitative award shall be allocated and the Executive Vice Presidents shall not be entitled to a qualitative award in respect of such year.

(b) Manner of allocation of the budget to the qualitative award. The amount of the budget for the qualitative award shall be distributable among the Executive Vice Presidents entitled to an annual award, at the discretion of the Bank's President & CEO (and with respect to supervision and control Executive Vice Presidents, at the discretion of the relevant appointees) provided that the qualitative award to a single Executive Vice President shall not exceed an amount of two monthly salaries. Allocation of the budget to the qualitative award shall be made subject to the approval of the remuneration committee and the Board of Directors.

23. EMPLOYEE BENEFITS (CONTINUED)

When allocating the budget for the qualitative award among the different Executive Vice Presidents, the President & CEO and the relevant appointees shall, among other things, take into consideration the following factors: the contribution to the Bank's strategic planning as well as its implementation, promotion and execution of strategic plans and goals; leading of efficiency plans and attaining the resultant goals; promotion and implementation of investment plans and/or material acquisitions (including acquisitions that might reduce current profitability); attaining the Bank's general goals in the matter of risk management; attaining the Bank's general goals in the matter of compliance to laws (including internal enforcement with respect to securities and/or other operations), regulatory instructions and the Bank's procedures; legal proceedings (including administrative proceedings) conducted or which had been conducted against the Executive Vice President; reports by regulatory authorities relating to the work of the Executive Vice President; contribution to current operations and business results; promotion and implementation of projects relating to the maintenance of security; material findings of the internal audit reports.

6. The basic award

The basic award shall be equal one monthly salary of the Executive Vice President.

Entitlement terms to the basic award. Entitlement to the basic award in respect of a particular award year is conditional upon fulfillment on a cumulative basis of all entitlement terms detailed below:

(1) The core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, shall not be lower than the ratio determined in the work plan for that year;

(2) The actual efficiency ratio, as computed on the basis of the Bank's standalone financial statements for the award year, net of extraordinary profit or losses, did not exceed the goal of that standalone efficiency ratio, determined by the Board of Directors at the beginning of an award year, in accordance with the Bank's work plans;

(3) The Executive Vice President has been awarded a "pass" mark as regards the qualitative index, which includes the contribution of the Executive Vice President towards the implementation of processes regarding corporate governance.

7. Fixed award and a extra award to a supervision and control Executive Vice President

A supervision and control Executive Vice President shall be entitled to a cash award in an amount equal to one monthly salary, payable proximate to the date of publication of the financial statements for the award year ("the fixed award"), provided that the minimum terms detailed in item 2(b) above are fulfilled. In an award year in which the amount of entitlement of a supervision and control Executive Vice President to an annual award (as detailed in item 2 above) is higher than the fixed award, the supervision and control Executive Vice President shall receive the positive difference ("the extra award") in addition to the annual award, as the case may be. The total amount of the fixed award, the extra award and the special award (where relevant) in respect of a supervision and control Executive Vice President shall not exceed an upper limit amounting to twelve monthly salaries of that Executive Vice President.

In respect of the manner of granting, deferral and payment of the extra award and the special award (where relevant), the instructions of item 10 below shall apply.

8. Special awards

(a) **Award in respect of extraordinary profit or losses.** The Bank's remuneration committee and Board of directors are entitled to grant to all Executive Vice Presidents or to any one of them, a special award, whether positive or negative, in respect of extraordinary profit or losses ("award for extraordinary profit or losses"). The award in respect of a Executive Vice President shall be computed as the difference between the annual award for the award year and the annual award as would have been computed had not the extraordinary profit or losses been eliminated for the purpose of computing the collective indices (including any tax liability expected in their respect), with the addition of up to 20% of the said difference.

Notwithstanding the above, the amount of the positive award to a single Executive Vice President in respect of extraordinary income or losses, shall not exceed an amount of six monthly salaries, and the amount of the negative award in respect of a single Executive Vice President, shall not exceed the amount of entitlement to an annual award of Executive Vice Presidents, who are not supervision and control Executive Vice Presidents, or the amount of the extra award in respect of a supervision and control Executive Vice President.

(b) **Award in respect of a special contribution.** The remuneration committee and the Board of directors are entitled to grant to all Executive Vice Presidents or to any one of them a special award, in respect of extraordinary performance or special contribution to reaching the goals of the Bank, including in respect of attaining measurable criteria determined in advance by the Board of Directors, provided that the total award in respect of the special contribution shall not exceed NIS 500 thousand and subject to the upper limit determined for the awards.

23. EMPLOYEE BENEFITS (CONTINUED)

(c) **Award under special circumstances.** The remuneration committee and the Board of directors are entitled to grant an annual award in a cumulative amount not exceeding the product of multiplying the number of Executive Vice Presidents by the amount of one average monthly salary of a Executive Vice President, in case the Bank has not attained all minimum terms for the payment of an annual award, provided that the following cumulative terms are fulfilled ("special circumstances award"):

(1) The remuneration committee and the Board of Directors have found that in that year special circumstances occurred at the Bank or in the banking industry in Israel or in the macro-economic situation;

(2) The Bank's overall capital adequacy ratio and the core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, are not below the minimum ratios determined in the directives of the Supervisor of Banks, with the addition of 0.15%;

(3) The total said annual award granted to a single Executive Vice President shall not exceed an amount of two monthly salaries of that Executive Vice President.

9. Upper limit of the awards

The total amount of awards to all Executive Vice Presidents, with the addition of the fixed awards (as defined in item 7 above) to supervision and control Executive Vice Presidents, shall not exceed an amount equal to the product of the number of Executive Vice Presidents entitled to an annual award (in accordance with item 2 above) multiplied by eleven average monthly salaries of those Executive Vice Presidents.

In accordance with the remuneration policy, the total amount of awards to all officers (including the Chairman of the Board and the President & CEO) in respect of an award year, shall not exceed 2.5% of the Net Profit Attributed to the Bank's Shareholders, in accordance with the annual financial statements for the award year. The total amount of awards in an awards year, in respect of a Executive Vice President who is not supervision and control Executive Vice President, shall not exceed thirteen monthly salaries. The total extra award, the fixed award and the special award in respect of an award year, granted to a supervision and control Executive Vice President, shall not exceed twelve monthly salaries.

10. Granting, deferral and payment of the total amount of awards

The date for computing the entitlement to the total amount of awards in accordance with the plan, in respect of the award year, shall be March 31, of the year following the award year ("date of entitlement to the total award").

The total amount of the variable remuneration in an award year shall not exceed the amount of the fixed remuneration of the Executive Vice President in the award year.

50% of the total amount of awards for the award year shall be paid in cash, no later than 45 business days following the publication of the Bank's financial statements for that year.

50% of the total amount of awards for the year of award shall be linked to changes in the price of shares of the Bank, and shall be deferred and paid in three equal installments ("deferred award installment") in the three consecutive years following the date of entitlement to the total amount of awards, as follows:

- The first deferred award installment shall be paid proximately to twelve months from date of entitlement to the total awards;
- The second deferred award installment shall be paid proximately to twenty-four months from date of entitlement to the total awards;
- The third deferred award installment shall be paid proximately to thirty-six months from date of entitlement to the total awards.

The consideration for the deferred award installment payable to a Executive Vice President ("consideration for the deferred award installment") shall be computed according to the value of the deferred award installment at date of entitlement to the total awards, linked to changes in the price of the shares of the Bank since date of the said entitlement and until date of payment.

In any event, the consideration for the deferred award installment shall not exceed twice the value of the deferred award installment at date of entitlement to the total awards.

Payment of the consideration for the deferred award installment is conditional upon the rate of return on equity in the award year preceding the date of payment in full of the consideration for the deferred award installment, as follows: in the case of a rate of return on equity of 6% or higher, the full consideration for the deferred award installment shall be paid. In the case of a rate of return on equity of 4% or below, the consideration for the deferred award installment shall be abolished and not paid. In the event of a rate of return on equity of between 4% and 6%, the consideration for the deferred award installment shall be paid proportionally on a linear basis.

In the event that the consideration for the deferred award installment is not paid or is paid in part only, the remaining consideration for the deferred award installments shall not be abolished and shall be subject to the terms stated above in the following years.

23. EMPLOYEE BENEFITS (CONTINUED)

Notwithstanding the above, if in any award year, the total amount of awards to which a Executive Vice President is entitled in respect of that year, does not exceed one-sixth of the fixed remuneration due to the Executive Vice President, then 100% of the amount of awards for that award year shall be paid in cash, no later than 45 business days following the publication of the Bank's financial statements for that year, and the deferral of payment provisions shall not apply.

The plan includes provisions for adjustments in the payment of the deferred award installment under certain circumstances defined therein. Provisions have also been determined regarding deferred awards not yet paid upon termination of office.

11. **Authority of the Board of Directors to reduce the total amount of awards.** The Board of Directors is empowered, for special reasons, to reduce the total amount of awards for all Executive Vice Presidents or for a particular Executive Vice President, following the recommendation of the remuneration committee and after consultation with the Bank's President & CEO.

    The plan contains also provisions for the amendment and refund of awards short-paid or paid in excess.

12. **Awards in respect of the year 2014.** In view of the strategic plan formulated for the Discount Group and the efficiency measures required at the Bank and at the Group, and in view of the desire that the remuneration plans that are to be formed would be in agreement and in accordance with the strategic plan and the goals deriving there from, the Bank's Board of Directors has decided that no awards would be paid to Bank Officers in respect of the year 2014.

13. **Awards in respect of 2015.** The entitlement to awards did not materialize in respect of the year 2015. The Remuneration Committee and the Board of Directors have decided to grant to five members of Management an award for their special contribution in respect of 2015, in a total amount of NIS 500 thousand (see item 8(b) above).

14. **Awards in respect of 2016.** The entitlement to an annual award did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a basic bonus in an amount equivalent to one month's basic salary for each of the vice presidents, in a total amount of NIS 998 thousand for all the vice presidents (see item 6 above); a special circumstances bonus package in an amount of NIS 987 thousand for the vice presidents (see item 8 (c) above); and a special contribution bonus, for three vice presidents, in a total amount of NIS 500 thousand (see item 8 (b) above). The special circumstances bonus package was divided differentially by the President & CEO between the vice presidents.

    The approved bonuses totaled NIS 2,495 thousand. The Remuneration Committee has approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC's expense in respect to the arrangement in lieu of criminal proceedings; the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the bonuses.

    The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the new remuneration policy that was approved by the general meeting on November 8, 2016, in relation to the 2016 bonuses. Consequently, the spreading mechanism will be applied only if the variable remuneration of a vice president exceeds 40% of the fixed remuneration.

G. Retirement plan (2014). In August 2014, the Bank's Board of Directors approved a strategic plan for the years 2015-2019, in the framework of which, as part of the efficiency measures, approval was given to a retirement plan for approx. 250 employees. In view of the extensive demand on the part of employees to join the plan, the Bank's Board of Directors decided to extend the plan, allowing 130 additional employees to join it. The cost of the plan amounted to NIS 515 million (not including severance pay in accordance with the law) – increasing the provision for employee rights with respect to the plan, an expense of NIS 321 million, after the tax effect.

H. Voluntary retirement plan at MDB (2014). In November 2014, the Board of Directors of MDB approved a framework for a voluntary retirement plan. The plan involves the payment of increased severance pay. The financial statements as of 2014, include a provision in respect of the expected additional liability resulting from the implementation of the plan, amounting to NIS 33 million, before the tax effect, or NIS 20 million net of the tax effect.

I. Employees having a long service period and earning a high salary. At the end of May 2016, the Bank approached a group of employees, who are not officers of the Bank but having a long service period and earning a high salary, and which may be affected by the limitations determined in the Act. This group was offered early retirement and enlarged severance pay (see also Note 1 C 5 (1) above). The said employees were included in the 2016 efficiency plan, upon its approval (see below).

J. 2016 Efficiency plan. The Bank's Board of Directors approved on September 13, 2016, an efficiency plan, according to which some five hundred employees of the Group shall be entitled to early retirement at beneficial terms, most of whom, by the end of 2016.

The total cost of the plan is estimated at NIS 511 million (in excess of the cost of severance pay payable under the law), of which an amount of NIS 60 million was already recognized in the financial statements for the first quarter of 2016, as stated in Note 1 C 5 (1) above. The updated cost of the plan amounts to NIS 497 million.

23. EMPLOYEE BENEFITS (CONTINUED)

The cost of updating the actuarial liability to employees in respect of the efficiency plan has been treated as an actuarial loss and recognized in other comprehensive income.

Starting with the third quarter of 2016, the costs of the plan are amortized to the statement of income as part of the balance of "actuarial profits and losses", by the straight-line method, over the remaining average period of service of the employees.

In reporting periods in which a "settlement" occurs (as defined in U.S. GAAP), an additional amount of the balances of "actuarial profits and losses" would be amortized over and above the said amortization, at the rates of settlement costs borne by the Bank (actual payments, whether in respect of natural retirement or in respect of early retirement) out of the balance of the liability for severance pay.

The Bank approached those employees to whom the defined criteria apply, and offered them an early retirement under preferential terms. The employees were offered the option of a capital track, a pension track, or a combination of the two.

Preferential terms for employees below the age of 61 years included, inter alia, increased severance pay at the rate of 165%. Employees over the age of 61 years at the determining date have been offered 70% of the balance of salary for severance pay purposes in respect of the period until their retirement. All employees have been granted a salary increase at the rate of 2%. All employees who retired at the end of December 2016 were also granted a seniority increment of 0.1%. Employees earning a monthly salary for severance pay purposes of up to NIS 20 thousand were given in addition a one-off award of NIS 50 thousand.

K. Voluntary retirement plan at MDB (2016). On September 11, 2016, the Board of Directors of MDB approved an efficiency plan formed by the Management of this bank, which includes a voluntary retirement plan at beneficial terms of some fifty employees. The cost of the plan is approx. NIS 31 million (this amount is included in the cost of the 2016 efficiency plan, as mentioned above). In actual fact, thirty employees had retired until December 31, 2016, and, respectively, the plan was reduced to NIS 17 million.

24. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS

A. THE AUTHORIZED, ISSUED AND PAID-UP NOMINAL CAPITAL (IN NEW ISRAELI SHEKELS):

	December 31,2016		December 31, 2015	
	Authorized	Issued and Fully Paid-Up	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	225,515,000	113,212,487	225,515,000	105,386,930
6% Cumulative Preferred Shares,of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202	202	202
Total shareholders equity	**225,515,202**	**113,212,689**	**225,515,202**	**105,387,132**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to 10 pounds sterling, is entitled to an annual dividend in an amount of NIS 2.83, and at the time of liquidation to a distribution in an amount of NIS 47.25. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the item "other liabilities".

C. (1) Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B". The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details see Note 25 below).

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 25 L (2) hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

24. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes Series "B" (see Note 25 L (3) hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital

The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank's shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes.

In December 2010 the bank completed a share offer to the public as well as a rights issue.

(3) Increase of the authorized share capital in February 2014

A special general meeting of shareholders held on February 17, 2014, resolved to increase the Bank`s authorized share capital by 294.15 million ordinary "A" shares.

D. Issuance of shares 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 will be 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 are exercisable through March 31, 2017. If all the option warrants are exercised, the Bank will receive an additional consideration of NIS 183 million.

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 14,307,655 option warrants were exercised until March 23, 2017, with additional consideration received in the amount of NIS 64 million.

E. Share based payment transactions – an option plan for officers of the Bank

(1) Phantom plan for the acting Chairman of the Board and for the former President & CEO

Within the framework of an approved remuneration plan in respect of the Chairman of the Board and to the President & CEO who held office until February 19, 2014 (hereinafter: the former President & CEO), it had been determined that the Chairman of the Board and the former President & CEO were entitled to a phantom type remuneration, which was dependent on the performance of the Bank's shares. The Bank granted to the chairman of the Board a quantity of 6,511,628 phantom rights and to the former President & CEO a quantity of 4,878,049 phantom rights (hereinafter: "the phantom rights"). The phantom rights vested in five equal annual lots, each lot numbered one fifth of the total quantity of phantom rights. Each annual lot of phantom rights was exercisable, in whole or in part, during a period of two years from date of vesting, thereafter it expired and no longer entitled to any rights. All the said options expired gradually until January 1, 2017. For further details, see item (3) below.

(2) Awards, the payment of which is linked to the price of the Bank's shares

For details regarding deferred awards, the payment of which is linked to the price of the Bank's shares, see Note 23 F 10.

(3) LIABILITIES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS - PHANTOM PLANS - QUANTITATIVE DATA

PHANTOM PLAN FOR THE CHAIRMAN OF THE BOARD AND THE FORMER PRESIDENT & CEO

	December 31	
	2016	2015
	in NIS thousands	
Total liabilities arising from share-based payment transactions	-	247
Intrinsic value of liabilities in respect of which the counterparty's right to cash has vested by the end of the year	-	-
Total expense (reversal of expense) charged to the statement of profit and loss	(247)	30

F. DIVIDEND

(1) General. The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

24. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

(2) **Restrictions established in instructions of the Supervisor of Banks.** Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) **Distribution of a dividend in respect of preferred shares.** The annual general meeting of shareholders, held on November 8, 2016, resolved to approve a dividend for the year 2016, at the rate of 6%, payable to the holders of 40,000 6% preferred, cumulative shares of a par value of NIS 0.00504 each. The dividend amounts to £24,000, and was paid on December 31, 2016.

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

1. **Capital adequacy according to Directives of the Supervisor of Banks -** Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

A. **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of December 31, 2015 and December 31, 2014) reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

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

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

B. **Restrictions on the granting 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 to be applied gradually in equal quarterly installments, over eight consecutive quarters, starting on January 1, 2015 and until January 1, 2017.

The said requirement will increase the total minimum equity capital requirement and the total capital by approx. 0.17% (for the whole period).

C. **Assessment of the effect of implementing the amended instructions in the matter of "capital requirements in respect of exposure to central counterparties".** The amendments in this respect apply as from January 1, 2017 and thereafter. The Bank estimates that the effect of the initial implementation, in December 31, 2016 terms, would be negligible. In the event that the Tel Aviv Stock Exchange Ltd. would no be recognized as a central qualified counterparty, the effect in terms of December 31, 2016 will amount to a reduction of 0.095%.

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 including an increase in the special reserve for exceptional retirement cases – see Note 1 C 5 (1); an amount of NIS 245 million net of tax; net of the reduction in the plan at MDB – see Note 23 K and net of the effect of changes in actuarial assumptions – see Note 1 D 15.6) 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. For additional details regarding the Bank's efficiency plan, see Note 23 J.

E. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, in respect of a change in the volume of risk assets and deductions from capital, and in respect of actuarial changes recognized in capital

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

F. CAPITAL FOR CALCULATING RATIO OF CAPITAL

	December 31,	
	2016	2015
	in NIS millions	
Common equity tier 1 after deductions	(1)15,036	13,549
Additional tier 1 capital after deductions	1,068	1,247
Tier 1 capital	16,104	14,796
Tier 2 capital after deductions	5,020	5,610
Total capital	**21,124**	**20,406**

Footnote:
(1) See item "D" above.

G. WEIGHTED RISK ASSETS BALANCE

	December 31,	
	2016	2015
	in NIS millions	
Credit risk	(1)137,393	126,907
Market Risk	2,483	2,435
CVA risk	942	788
Operational risk	12,072	12,330
Total weighted risk assets balance	**152,890**	**142,460**

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

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

H. RATIO OF CAPITAL TO RISK ASSETS

	December 31,	
	2016	2015
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	9.8	9.5
Ratio of total capital to risk assets	13.8	14.3
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.2	(4)9.1
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.7	(4)12.6
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	10.9	10.6
Ratio of total capital to risk assets	13.8	14.0
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(5)9.2	(5)9.1
Minimum total capital adequacy ratio required by the Supervisor of Banks	(5)12.7	(5)12.6
2. Discount Bakcorp Inc. (1)		
Ratio of common equity tier 1 to risk assets	13.1	12.8
Ratio of total capital to risk assets	14.2	13.9
Ratio of minimum common equity tier 1 required in accordance with local regulation	(2)4.5	(2)4.5
Minimum total capital adequacy ratio required in accordance with local regulation	(2)8.0	(2)8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	14.5	13.7
Ratio of total capital to risk assets	15.8	15.4
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	9.0	9.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	(3)12.5	(3)12.5

Footnotes:

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

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

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

(4) With an addition of 0.15% (December 31, 2015 0.06%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.16% (December 31, 2015 0.06%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

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

I. CAPITAL COMPONENTS FOR CALCULATING RATIO OF CAPITAL

	December 31,	
	2016	2015
	in NIS millions	
A. Tier 1 capital		
Common equity	14,936	13,634
Difference between common equity and common equity tier 1	104	168
Total common equity tier 1 before supervisory adjustments and deductions	15,040	13,802
Supervisory adjustments and deductions		
Goodwill and other intangible assets	160	142
Deferred tax assets	-	108
Supervisory adjustments and other deductions	2	3
Total supervisory adjustments and deductions	162	253
Total adjustments in respect to the efficiency plan	158	-
Total common equity tier 1 after supervisory adjustments and deductions	**15,036**	**13,549**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	1,068	1,247
Total additional tier 1 capital after deductions	**1,068**	**1,247**
C. Tier 2 capital		
Instruments before deductions	3,301	4,053
Provision before deductions	1,719	1,557
Total tier 2 capital before deductions	5,020	5,610
Deductions	-	-
Total tier 2 capital	**5,020**	**5,610**

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

	December 31,	
	2016	2015
	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	9.5	9.2
Effect of the provisional instructions	0.2	0.3
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
Effect of the adjustments in respect to the efficiency plan	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

Footnote:

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

K. Clarification regarding the recognition of hybrid capital instruments

(1) Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

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

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections L and M hereunder.

(2) On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

L. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in items (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

(2) Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank’s tier 1 capital (see item (1) "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (2) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank’s assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as hybrid tier 1 capital. The Governor of the Bank of Israel approved the Bank’s inclusion of the capital notes as hybrid tier 1 capital (see item (1) "General" above), subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K (2) to the financial statements as of December 31, 2015).

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

Following are part of the basic conditions for recognition of the capital notes as upper tier 1 capital:

(1) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank's inability to fulfill its obligations, as stated above;

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued Net profit (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank's financial statements, for six consecutive quarters, constituted a negative amount);

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(2) Allotment of shares in respect of interest - In the case of erasure of interest, as described in 6 above, the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(3) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) According to the Bank's financial statements, the Bank's retained earnings become negative;

(f) The Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

(4) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

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

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

(3) Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (3) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes will be paid four times a year. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see item L "General" above) are identical to the terms determined for Series "A" (as detailed in Section L (2) above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

M. The issue of upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

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

Terms of the subordinated capital notes (Series 1). The principal sum of the subordinate capital notes (Series 1) shall be repaid in one amount on April 20, 2058, subject to the right of Discount Manpikim Ltd. for the early redemption in full, as described below. The principal sum and interest of the subordinate capital notes (Series 1) are linked to the CPI. The subordinate capital notes carry an annual interest of 6.4% during the initial period (as defined below), payable four times per year.

Subject to the terms detailed in the trust deed signed in respect of the subordinate capital notes (Series 1) and subject to the approval of the Supervisor of Banks, Discount Manpikim would be entitled, at its discretion, to announce the early redemption in full of the subordinate capital notes, as from April 20, 2020 (hereinafter: "the initial period"). In the event that the capital notes are not prematurely redeemed at the end of the initial period, then in the period beginning with the end of the initial period, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate to be determined by the Trustee for the subordinate capital notes, on April 20, 2020 (hereinafter: "the scaled interest"); thereafter, the Trustee shall determine a scaled interest rate every five years. The scaled interest rate, which the Trustee determines in respect of each period of five years, as described above, shall be the rate of return that equals the simple arithmetical average of the rates of return on all government bonds linked to the CPI traded on the Stock Exchange at that time, having an average maturity exceeding 4.5 years, with the addition of 6.73% over the said rate of return

The rights of the holders of the subordinated capital notes shall be deferred as regards claims by all other creditors of Discount Manpikim and of the Bank of any class, with the exception of holders of capital notes which constitute and/or will constitute from time to time the hybrid tier 1 capital issued by the Bank.

Terms for the recognition of the subordinated capital notes as upper tier 2 capital. The Supervisor of Banks permitted the Bank to include the subordinated capital notes as upper tier 2 capital (see "General" above) subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K to the financial statements as of December 31, 2015). Following are details of a part of the terms for the recognition of the capital notes as upper tier 2 capital.

(1) Suspension of interest payments - Interest payments shall not be made if on their due date "suspending circumstances" prevail, as the term is defined below, and the payment thereof shall be deferred for unlimited periods. The suspending circumstances are:

   a. The Bank's Board of Directors has determined that the Bank is not able to honor on their due dates its liabilities that have preference over or that are equal to the subordinated capital notes, or where the Bank's independent auditor in his opinion or review report appended to the Bank's financial statements or the interim financial statements, as the case may be, has drawn attention to notes to the financial statements concerning the Bank's inability to honor its liabilities, as above.

   b. The Bank's Board of Directors has determined that reasonable concern exists that the payment of interest will cause a situation where the Bank will not be able to meet its existing and/or expected liabilities, or where the Bank's independent auditor in his opinion or review report appended to the financial statements or the Bank's interim financial statements, as the case may be, has drawn attention to notes to the financial statements mentioning the existence of such reasonable concern.

   c. Where according to the Bank's financial statements last issued prior to the interest payment date, the Bank has no distributable earnings.

   d. The Supervisor of Banks has ordered the suspension of interest payments after realizing that real concern exists that the payment of interest will cause a situation where the Bank would not be able to meet its liabilities.

(2) Settlement of suspended interest payments - if at the date determined for the settlement of whatever interest payment it becomes clear that a change has taken place in the Bank's financial stability in a manner that suspending circumstances, as described in Section 10 above, exist, then payment of such interest would be suspended until such time as one or more of the conditions detailed hereunder exist, and provided that none of the suspending circumstances is still in existence and/or has ceased to exist.

   These are the circumstances where upon the first coming into existence any of which, and subject to a determination by the Bank's Board of Directors that suspending circumstances no longer exist at that time, the suspended interest payments may be paid together with interest and linkage increments thereon:

   a. The Bank has declared the payment of dividend to the holders of any class of its shares.

   b. The Bank has announced a premature redemption, in full or in part, of the principal sum of the subordinated capital notes, or has redeemed the principal sum of the subordinated capital notes, in full or in part.

   c. A liquidation order has been issued against the Bank, however in such a case, settlement of the suspended interest payments is subject to the settlement of all the Bank’s liabilities that take precedence over the principal and interest of the subordinated capital notes, or subject to another arrangement reached with the Bank's creditors that are preferable to the holders of the subordinated capital notes.

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

(3) Non-payment of dividends - the Bank shall not pay a dividend to its shareholders so long as all the suspended interest payments have not been settled in full, this whether the declaration of the dividend had been made prior to the announcement by the Bank that suspending circumstances emerged or made after such an announcement.

(4) Premature redemption by the holder - the holder may not redeem the subordinated capital notes prematurely.

(5) Premature redemption by the Bank - subject to restrictions detailed hereunder, the Bank may decide, based upon its judgment with no option to the holders of the subordinated capital notes, to prematurely redeem the principal of the subordinated capital notes, in full or in part, as the case may be, as well as the linkage increments and interest accrued in respect of the subordinated capital notes to date of the actual premature redemption, in respect of the principle of the subordinated capital notes this upon all the following conditions being materialized cumulatively:

a. At least ten years have elapsed since the date of issue of the subordinated capital notes and the actual date of premature redemption.

b. Premature redemption may only be made after receiving the prior approval of the Supervisor of Banks and on condition that the instrument shall be replaced by other capital of an identical or higher caliber, unless the Supervisor has determined that the capital adequacy of the corporation is adequate in relation to its risks.

c. Effecting the premature redemption will not bring about any of the suspending circumstances, as defined in section 10 above, immediately after execution of the resolution for the premature redemption, and the Bank's Board of Directors has determined that even considering the premature redemption it does not expect suspending circumstances to emerge in the course of the twelve months following the date of the premature redemption.

(6) Change in terms, premature redemption and/or determination of an interest mechanism - the capital notes are issued for a period of 49 years.

The terms of the capital notes may not be altered without the prior approval in writing of the Supervisor of Banks. Without derogating from this provision, and following at least ten years from date of issue (hereinafter: "the initial period"), a step-up of interest is permitted only once in the instrument's life time. The rate of increase in the interest shall not exceed 100 basis points less the swap spread between the initial index base of the increased interest and the stepped-up index basis, or - 50% of the initial credit margin less the swap spread between the initial index base and the stepped-up index base.

Following the end of the initial period and if the subordinated capital notes are not prematurely redeemed at the end of the initial period, the capital notes shall bear interest at a variable rate in accordance with a predetermined and fixed basis to be established by the Trustee for the notes.

(7) Subordination - The Bank's obligation for the payment of principal and interest of the capital notes shall be subordinate to all its other liabilities of whatever class, including liabilities towards the holders of subordinated capital notes issued or to be issued in the future by the Bank, and shall only take precedence over the rights of the Bank's shareholders to the reimbursement of the Bank's surplus assets upon liquidation, and over the rights of holders of other securities, the Bank's obligation in respect of which is recognized as the Bank's tier 1 capital, if and when the Bank will issue such securities. The status of the Bank's obligations, as stated above, shall not be altered as a result of the fact that the capital notes shall no longer be considered the Bank's tier 2 capital, for whatever reason. The Bank's obligation to pay the principal of the capital notes and the interest thereon stands parri passu with additional securities and/or additional securities that may be issued by the Bank or its subsidiaries and approved by the Supervisor of Banks as "hybrid capital instruments".

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

N. Issuance of subordinate debt notes which include a loss absorption mechanism (Series "L")

On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "L") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "L") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules.

The principal sum of the subordinate debt notes (Series "L") will be repaid in one amount on January 10, 2027, unless the Bank has previously used its right for the early redemption if the subordinate debt notes after five years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "L"), carries a fixed annual interest of 3.60% payable once a year.

Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Bank shall write-off (fully or partly) the subordinate debt notes. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

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

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Decision to arrange an inflow of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of fifteen years from the initial date of issue of the subordinate debt notes (namely, until January 10, 2032), in accordance with the above, the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, than the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

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

General. In accordance with an amendment to the Reporting to the Public Directives, commencing from the report for the second quarter of 2015, banking corporations and credit card companies in Israel are required to include in their reports a disclosure regarding the leverage ratio. Concurrently, Proper Conduct of Banking Business Directive No. 218, regarding "Leverage Ratio", entered into effect on April 1, 2015. The Directive takes effect on January 1, 2018. Notwithstanding the above, a banking corporation, which on date of publication of the Directive matched the minimum leverage ratio, shall not fall below the minimum determined by the Directive.

	December 31,	
	2016	2016
	in NIS millions	
A. Consolidated		
Tier 1 capital	(1)16,104	14,796
Total exposures	243,900	225,950
	In %	
Leverage ratio	6.6	6.5
Leverage ratio required by the Supervisor of Banks	5.0	5.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	6.6	6.6
Leverage ratio required by the Supervisor of Banks	5.0	5.0
2. Discount Bakcorp Inc.		
Leverage ratio	9.6	9.2
Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	10.1	9.2
Leverage ratio required by the Supervisor of Banks	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 I and J.

3. **Liquidity coverage ratio according to Directives of the Supervisor of Banks** - Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. Banking corporations in Israel are required to include in their reports a disclosure regarding the liquidity coverage ratio. In accordance with the Proper Conduct of Banking Business Directive No. 221, regarding "Liquidity Coverage Ratio", the minimum requirement stood at 60%, and increased to 80% on January 1, 2016 and to 100% on January 1, 2017. The Supervisor of Banks states in the transitional instructions that it is expected that a banking corporation, which has attained a liquidity coverage ratio of 100% already at date of the implementation of the instruction, shall not fall from that ratio during the transition period.

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

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; 2015 - with the exception of IDB (Swiss) Bank and ICC).

Revision of the FAQ file for the implementation of Proper Conduct of Banking Business Directive (No. 221) regarding the liquidity coverage ratio. The revised file clarifies, inter alia, that debit balances arising from credit card operations may be recognized as cash inflows at the rate of 100% instead of the previous rate of 50%. The Bank implements the said clarification as from October 1, 2016.

	For the three months ended	
	December 31,	
	2016	2015
	In %	
A. Consolidated		
Liquidity coverage ratio	146.5	128.0
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	178.1	153.4
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries(1)		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	142.1	(2)125.2
Liquidity coverage ratio required by the Supervisor of Banks	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. Furthermore, the directive does not apply to IDB New York.

(2) Restated.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. OFF-BALANCE SHEET COMMITMENT AT YEAR-END REGARDING ACTIVITY BASED(1) ON LOAN PAYMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans(2)				
Israeli currency - non linked	701	967	701	967
Israeli currency - linked to the CPI	457	569	439	548
Foreign currency	139	112	139	112
Total	**1,297**	**1,648**	**1,279**	**1,627**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 21 million (2015: NIS 29 million), have not been included in the table.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. CASH FLOWS IN RESPECT OF COLLECTION COMMISSIONS AND INTEREST MARGINS OF ACTIVITY BASED ON LOAN REQUIREMENTS - CONSOLIDATED

	December 31							
	2016							2015
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In israeli currency, non-linked:								
Future contractual flows	1	-	-	2	4	-	7	6
Expected future flows based on Management's estimates of early repayments	1	-	-	2	4	-	7	6
Discounted expected future flows based on Management's estimates of early repayments(1)	1	-	-	2	3	-	6	5
In israeli currency, CPI-linked:								
Future contractual flows	5	9	6	4	1	-	25	33
Expected future flows based on Management's estimates of early repayments	5	7	4	2	-	-	18	23
Discounted expected future flows based on Management's estimates of early repayments(2)	5	7	4	2	-	-	18	22
In foreign currency:								
Future contractual flows	-	-	-	-	-	-	-	1
Expected future flows based on Management's estimates of early repayments	-	-	-	-	-	-	-	1
Discounted expected future flows based on Management's estimates of early repayments(3)	-	-	-	-	-	-	-	1

Footnotes:

(1) (2.30% :2015) The capitalization was performed according to weighted rate of 2.41%

(2) (0.64% :2015) The capitalization was performed according to weighted rate of 0.52%

(3) The capitalization as at December 31, 2015 was performed according to weighted rate of 0.65% .

INFORMATION AS TO THE GRANTING OF LOANS DURING THE YEAR BY THE MORTGAGE BANKS - CONSOLIDATED:

	December 31	
	2016	2015
Loans out of deposits repayable according to the repayment of loans	6	1
Standing loans	2	2

C. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2016
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	114	117	44	50
Second year	103	108	42	50
Third year	84	92	28	42
Fourth year	63	73	22	29
Fifth year	56	61	17	23
Sixth year and thereafter	242	286	85	113
Total	**662**	**737**	**238**	**307**
2. Commitment to acquire buildings and equipment	70	117	46	58
3. Commitment to invest in private investment funds and in venture capital funds	519	196	-	-

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

4. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Ma'of Clearing House Ltd., are responsible along with other Ma'of Clearing House members towards the Clearing House for any financial obligations resulting from option transactions conducted on the Stock Exchange. For this purpose, the Ma'of Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2016, amounts to approx. NIS 96 million, comprising 14.61% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2016, amounted to NIS 5 million, comprising 0.17% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Ma'of Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Ma'of Clearing House any monetary charge that may result from its operations and from the operation of their customers involving the writing of options traded within the framework of the Clearing House.
5. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at another bank (in which cash is deposited). (See Note 27 H).
6. Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues ETN's, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its ETN's. The Bank granted Tafnit an indemnification as collateral for the said commitment. A similar indemnification in an identical amount, was given by the Bank in respect of Tachlit Basket Certificates Ltd.. The indemnifications granted by the Bank, as stated, have expired upon the consummation of the transaction for the sale of the ETN's operations (in March 2011), following which the Bank no longer holds (indirectly) means of control in the companies Tachlit Dollar Worldwide Ltd. and Tachlit Basket Certificates Ltd.

   It should also be noted, regarding Tafnit's commitments towards Tachlit Dollar WorldWide Ltd. and Synergetics Ltd., as stated above in this subsection, that as part of the transaction for the sale of the ETN's operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the ETN's operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two ETN companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the ETN companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.
7. The Bank's consolidated subsidiaries are engaged in providing a variety of trusteeship services and serve, inter alia, as trustees for certain debentures issued to the public according to a prospectus and which are traded on the Stock Exchange.
8. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank's request in other companies held, directly or indirectly, by the Bank (see hereunder).

   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

g) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in items (d) to (g) above, the Bank has granted an indemnity to Manpikim.

h) In April 2013, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

i) Concurrently with approval of the engagement in an agreement for the sale of the provident fund management activity, the Bank committed to indemnify Discount Gemel Ltd. and its executive officers including also those who are/were officers of the Bank, under conditions and circumstances in which the Bank is permitted to grant such indemnification in accordance with the relevant provisions of the Companies Law, with respect to their activity as officers of the company relating to approval of the sale agreement and implementation of the said sale, including any financial liabilities, expenses, consultation with legal and other experts, as required, and reasonable litigation expenses, provided that the cumulative amount required to be paid by the Bank shall not exceed the consideration receivable by the Bank under the sale agreement, and provided that realization of the indemnification will not impair the capital adequacy ratio, which the Bank is required to maintain under Proper Conduct of Banking Business Directive No. 311, all as stated in the indemnification letter.

j) **Liability Insurance of Officers.** On March 31, 2015, the general meeting of shareholders approved the commitment of the Bank to purchase an insurance policy covering Directors and other officers liability, including the Bank's President & CEO and the Internal Auditor, acting at the present time and who had acted in the past and/or would act at the Bank, at companies in which the Bank holds directly or indirectly, an interest of 50% or over, in the equity or in voting rights, as well as other officers appointed or who would be appointed by the Bank to act in a company in which the Bank holds an interest of less than 50% in the equity or in the voting rights. In accordance with Regulations 1a1 and 1b(5) of the Companies Regulations (Relief in respect of transactions with interested parties), 2000, the Bank's Remuneration Committee and the Board of Directors confirmed that the terms of the policy applying to the President & CEO, are identical to those of the policy applying to Directors and the other officers, and that the policy agrees with market terms and is not expected to affect the Bank's profitability, assets or liabilities.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The policy was in effect for the period which began October 1, 2014 and ended March 31, 2016, with maximum coverage in the amount of US$150 million for the claim and for the insurance period. The annual premium that was paid in respect of the Bank`s group for the policy was in the amount of approx. US$479 thousand. In the event of claims against any officers, the officer shall not bear any deductible. The Bank will bear participation (deductible) in the amount of US$50 thousand per event.

On December 2, 2015, the Bank's annual general meeting resolved to grant approval in advance for the Bank to purchase a policy for directors' and other officers' liability insurance, as they were and shall be from time to time, at the Bank and at the Bank Group, to be valid during their service with the Bank, including in respect to their service, on behalf of the Bank, as officers of any other company in which the Bank has a holding, directly or indirectly, and to amend accordingly the Bank's remuneration policy.

The main points of the engagement include the following: the Bank's purchase of a policy for directors' and other officers' liability insurance shall be made for insurance periods, the first of which shall begin at the end of the current insurance period, and shall end at the conclusion of the policy period that shall be renewed in 2019; the purchase of the group policy may be made by extending or renewing the existing policy, or by way of purchasing a new policy, where required; the group policy's liability coverage shall not exceed US$250 million per event and per insurance period; the annual premium in respect to the group policy shall not exceed US$1 million with an increase of up to 20% per year; in the event of a claim against any of the officers, they shall not be subject to any deductible. The Bank shall be responsible for the deductible in an amount that is to be determined in the group policy, and which shall not exceed US$250 thousand per event; engaging in the purchase of such a group policy from time to time is subject to the approval of the Remuneration Committee and the Bank's Board of Directors, and in doing so they shall confirm that the group policy is in accordance with the Bank's remuneration policy valid at the time of approving the Policy and/or in accordance with the terms of the proposed resolution at the time of calling the general meeting referred to above, that the purchase is for the benefit of the Bank and that the terms of the Policy are reasonable, taking into account the exposure of the officers and the Bank, the scope of the coverage and the market terms on the date of making their decision.

k) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names).

In addition, the abovementioned special General Meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with mobilization of tier 1 capital implemented in the Bank in December 2006 and May 2007.

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

l) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, in accordance with the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 2011 and the Antitrust Law (Amendment No. 13), 2012.

m) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution regarding the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank's articles and the remuneration policy accordingly.

Within the framework of the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not in respect to reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

n) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. The general meeting of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution which was granted to officers of MDB, in order to agree with the indemnification terms granted to officers of Discount Bank.

o) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

p) **Indemnification of officers of subsidiary companies.** In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, DCMI, Discount Underwriting and Issuing Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In December 2016, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group, following the amendments approved in the resolution regarding indemnification of officers of Discount Bank.

q) **Indemnification of officers of Discount Capital Ltd. (formerly known as: DCMI).** The Bank's Board of Directors approved in April 2013 a commitment to grant indemnification to officers of Discount Capital, officiating from time to time, in accordance with the version of an indemnification commitment letter in use at the Bank, as in effect from time to time, mutatis mutandis. The said indemnification commitment shall not apply to anyone acting also as an officer of Discount Underwriting and Issuing Ltd. and/or of the Bank, who has been granted indemnification by the Bank.

r) **Indemnification to Officers of Discount Underwriting Company.** On April 10, 2013, the Bank's Board of Directors approved the granting of a commitment for indemnification to Officers of Discount Underwriting Company, officiating therein from time to time, in accordance with the version of indemnification letter accepted at the Bank, as in effect from time to time, with the required changes. The commitment for indemnification, as stated, shall not apply with respect to whoever acts also as an officer of Discount Underwriting and Issuing Ltd. and/or the Bank, had an indemnification been granted by the Bank. The said commitment remained in force even after completion of the merger process (see Note 15 F).

s) For details regarding the indemnity granted to the acquirers of the activity of DBLA, see Note 15 D above.

t) For details regarding the indemnity granted to the acquirers of the activity of IDB (Swiss) Bank, see Note 15 E above.

9. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

   This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

10. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

    b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

    c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

11. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.
12. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. 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 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, has been assessed as reasonably possible, amounted to approx. NIS 1,646 million as of December 31, 2016.

12.1 On November 2, 1997 a law suite was filed with the Tel-Aviv District Court and a motion to approve the filing as a class-action suit against Discount Mortgage Bank ("DMB") (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank) and against three additional mortgage banks regarding the charging of commissions for life assurance and property insurance of borrowers. The amount set in the class-action suit is NIS 500 million, with no specific allocation to the banks involved.

Whereas, with respect to another request to approve an action as a class action, in a matter practically identical, the Court had already handed down its decision, which was appealed against, the Court decided that it will be heard only after the Supreme Court will issue a judgment with respect to the said appeal. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict.

12.2 A lawsuit together with a motion for approval of the suit as a class action suit was filed on April 14, 2013, with the Tel-Aviv District Court, against ICC and Castro Models Company Ltd. (hereinafter: "the Respondents").

The claim relates to the marketing of "Wish you card" gift cards. The Claimant alleges that the marketing of the gift cards was made while the Respondents displayed misleading statements and determined prohibited terms. The Claimant alleges that the actions of the Respondents had misled him and prevented him from performing operations to which he was legally entitled.

The Claimant stated the amount of the claim for all group members at NIS 213.5 million, on the assumption that the group numbers about 500 thousand customers. Mediation proceedings were conducted in this case between the Appellant and Castro (ICC is not a party to the mediation proceedings).

A motion for approval of a compromise arrangement was filed with the Court on August 9, 2016. According to this arrangement, the participation of ICC in the cost of the arrangement will reach an amount of NIS 200 thousand. On February 22, 2017, the Court approved the compromise arrangement.

12.3 A lawsuit was filed against the Bank on July 31, 2013, at the Central-Lod District Court, together with a motion for approval of the suit as a class action suit. The Claimant allege that the practice of the Bank is to open foreign currency accounts supplemental to the principal current account without informing the customers and without bringing to their notice the engagement terms including the related cost of managing these accounts. It was further argued that the practice of the Bank charges the said foreign currency accounts with minimum ledger fees even if no debit balances entries are made in these accounts with debt balance interest fees and more debt balance occur in the accounts. The amount of the claim in respect of all class members is stated by the Claimants at NIS 170 million.

An evidentiary hearing was held on September 20, 2016 and dates were prescribed for the filing of closing arguments. After the hearing of evidence and before submission of summations, the parties reverted to mediation proceedings.

12.4 A lawsuit against the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank, the First International Bank and against the General Managers of the said banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on August 28, 2013, with the Tel Aviv District Court.

The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a binding arrangement in contradiction to the provisions of the Antitrust Act, 1988. The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 10.5 billion.

On January 26, 2014, the Court admitted the motion by the Appellants for withdrawal of the suit against the general managers of the banks. On May 4, 2014, the Court decided that this case will be heard together with the motion described in item 12.7 below.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

In accordance with the decision of the Court, the Appellant filed on April 23, 2015, a summary motion for approval of the suit as a class action suit and placed the amount of the claim for all the defendant banks at NIS 7.7 billion, of which, the part attributed to the Bank amounts to NIS 929 million. The response of the banks to the shortened motion was filed on October 18, 2015.

New summation briefs on behalf of the Appellant were submitted on August 28, 2016. The Bank submitted its summing-up briefs on January 17, 2017. The Appellants submitted on January 29, 2017, their summing-up response.

12.5 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit was filed with the Tel Aviv District Court on January 5, 2014.

The Appellant claims that following the entry into effect of Proper Conduct of Banking Business Directive No. 325, MDB has unilaterally raised the interest rate on credit granted to its customers within the approved credit facility that had been agreed with the customers, and this after the customer had already borrowed funds from MDB within the framework of the credit facility allotted to him and on its basis. The Appellant states the amount of the claim at NIS 139 million.

The mediation process being conducted between the parties was recently renewed and, accordingly, a preliminary hearing was fixed for March 29, 2017.

12.6 A lawsuit, together with a motion for approval of the lawsuit as a class action suit was filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC.

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy. The Appellant stated the amount of the claim in respect of all group members at NIS 2,225 million.

On January 20, 2016, the Supreme Court dismissed the appeal by the Appellant, and left in effect the decision of the District Court to dismiss in limine the motion against the Bank. In its verdict of December 8, 2016, the Court dismissed the action as well as the motion for its approval as a class action suit. On January 22, 2017, the Claimant filed an appeal against the verdict with the Supreme Court. The appeal is fixed for hearing on February 5, 2018.

12.7 A lawsuit against DMB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on March 2, 2014, with the Tel Aviv Jaffa District Court. The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers.

Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a binding arrangement in contradiction to the provisions of the Antitrust Act, 1988. The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 2.07 billion.

The summing-up briefs on behalf of MDB were submitted on January 17, 2017. Response summations on behalf of the Appellants were submitted on January 29, 2017.

12.8 On March 4, 2014, a lawsuit was filed against the Bank 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.

A pre-trial hearing was held on April 18, 2016. The hearing of evidence in this case was postponed for May 2017.

12.9 A lawsuit was filed against the Bank on October 19, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit.

The Claimant argues that in violation of the law, the Bank charges its customers an excessive early repayment commission in respect of loans which are not housing loans. It is being argued that the Bank acts in contravention of Proper Conduct of Banking Business Directive No. 454. The Claimant stated that it is unable to estimate the amount of the damage caused.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Bank submitted a response to the motion for approval on July 21, 2016. Following the conduct of proof proceedings in the case, a summing-up brief on behalf of the Appellant was submitted on March 12, 2017.

12.10 A lawsuit against the Bank was filed on June 14, 2015, with the Tel Aviv District Court, together with a motion for its approval as a class action suit. The motion raises an argument with respect to the charging of excessive interest on arrears relating to CPI linked loans. The Claimant argues that the Bank charges interest on arrears at rates exceeding the contractual rate, and in contravention of the provisions of the Interest Order (Determination of the maximum interest rate), 1970.

The Claimant assesses the amount of the claim for all class members at NIS 155 million.

Talks are being held between the parties in an attempt to resolve the dispute. The case was fixed for preliminary hearing on March 22, 2017.

12.11 A lawsuit against Discount Bank and Hapoalim Bank was filed with the Tel Aviv District Court on August 23, 2015, together with a motion for approval of the action as a class action suit. According to the Plaintiff, the said banks had provided investment consulting services to their customers regarding the purchase and/or sale of ETN`s without having proper computerized systems and professional tools supporting such services. The Plaintiff argues that the granting of the said service constitutes a flagrant breach of the duties applying to investment consultants.

The Plaintiff stated the amount of the claim for all members of the class at NIS 160 million, or alternatively at NIS 368 million. The share applying to the Bank is NIS 49 million or alternatively NIS 73 million. On February 2, 2016, the Court instructed the combining of the hearing of this case with that of an additional motion against FIBI in a similar matter.

The Bank submitted on June 13, 2016, its response to the motion. A preliminary hearing was held on January 15, 2017. If the parties inform that the examination of witnesses is required, the case would be fixed for such examination for the months of May or June 2017.

12.12 On January 26, 2016, a lawsuit together with a motion for its approval as a class action suit, were filed against the Bank with the Tel Aviv District Court. The subject matter of the motion is the alleged incorrect entries and the non-rectification thereof according to the correct entries. According to the Plaintiff, the Bank does not restate the entries in the account in order to correct them and for it to show the position it should have been in, if the incorrect entries had not been made. This, contrary to the instructions of the Supervisor of Banks, the law and Court decisions.

The Plaintiff is unable to assess his claim and estimates the total damage at between tens and hundreds of million shekels. The Plaintiff stated the amount of the claim upon its submission at NIS 100 million.

The response of the Bank was filed on June 15, 2016. The case is fixed for the hearing of evidence on July 10, 2017.

12.13 On August 17, 2016, a claim was filed at the Tel Aviv District Court, together with a motion for the claim to be approved as a class action, against 10 banks, including the Bank and Mercantile Discount Bank. 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”.

The petitioners allege that, despite the fact that the types of transaction in respect to which a banking corporation is entitled to collect commission have been specified by the legislator within the framework of the full tariff list, the banks are collecting from customers that are not a “small business” types of commissions that are not permitted for collection under the law or at rates not permitted under the law.

The power of a Court decision was given on December 1, 2016, to a procedural agreement, according to which the respondent will submit their response until March 1, 2017. 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.

13. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and requests to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which in the opinion of the Bank’s, which is based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries which is based on legal opinions, respectively, it is not possible at this stage to evaluate their prospects of success, and therefore no provision has been included in respect therewith.

13.1 On June 19, 2000, two borrowers of DMB (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank) filed with the District Court a petition for approval of an action as a class action suit against DMB and against the Israel Phoenix Insurance Co. Ltd. ("Phoenix"), where the properties of the borrowers are insured. The action is for an amount of NIS 105 million.

The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, since the insured amounts included the land component, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

On December 25, 2000, the Court decided that the arguments raised in this petition were similar to the arguments raised in the pleas for approval of class actions discussed in 12.1 above. Consequently, the Court decided to defer the hearing of the said petition until after the verdict is given in those other pleas. The Supreme Court rejected on April 4, 2001, a plea for permission to appeal this decision. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

13.2 A lawsuit against the Bank and against two additional defendants was filed on April 9, 2016, with the Jerusalem District Court, together with a motion for partial exemption from Court fees. The lawsuit was filed by a trustee in bankruptcy of a former CEO and shareholder of a group of companies who personally was also a guarantor for the debts of the group. According to the Plaintiff, the Bank, which had supported the group during its years of business operations, cancelled suddenly, with no prior notice, the credit facilities of the group with everything involved therein. The Plaintiff alleges that these actions taken by the Bank brought about the collapse of the group of companies, and as a result the economic and personal collapse of the bankrupt. It is further claimed that due to the conduct of the Bank, 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.

This decision was appealed against on February 14, 2017. The Court ruling was given on March 2, 2017, according to which the Respondents will submit their response to the appeal within 21 days. A verdict would be given on the basis of the material submitted to the Court, unless an objection is filed in this respect.

13.3 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and others. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies. The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses, in respect of transactions made by debit cards and pre-paid cards, for a period of twenty days, following the date of collection of the money by the credit card companies.

On February 24, 2015, a motion for withdrawal from the claim was filed. A motion was filed with the Court on April 19, 2015, requesting the replacement of the parties applying for a withdrawal and their representatives by the Appellant and his representatives and to instruct the continuation of the proceedings by the Appellant and his representatives. On July 1, 2015, the Court approved the motion for withdrawal. Concurrently the Court approved the locating of alternative Claimant and his representative, who would undertake the conduct of the proceedings on behalf of the class.

Following the decision of the Court, three motions have been submitted to the Court for the appointment of Appellants and representatives in this case and new Appellants and representatives were appointed. A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion. On December 22, 2016, ICC submitted its response to the motion for approval. The Appellant submitted his response on February 22, 2017. 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.

13.4 On December 4, 2016, the Bank received a claim brief which had been 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 (hereinafter: 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.

13.5 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 13.4 above. The claim was filed by the liquidator of the two companies claiming a refund of an amount of $7.3 million, and of an amount of Australian $ 9.3 million from the Bank. To the best knowledge of the Bank, the delivery of the claim is not yet confirmed in Israel.

13.6 On December 18, 2016, an action was filed with the Central Region District Court against the Bank and against four additional banks, together with a motion for approval of the action as a class action suit. The Claimant argues that that the banks charge foreign currency transfer and handling fees that are not in accordance with the instructions of the full pricelist, as detailed in the Banking Rules (Customer service)(Commissions), 2008. It is argued that the pricelist instructions require banks to provide details of a particular fee rate (%), giving the possibility to state a minimum and maximum amount for the fee charged. It is argued that in actual fact, the banks charge a minimum fee on a gradual basis, the grading being based on the size of the amount transferred. It is alleged that the charging of a minimum fee in this manner is against the law. The Claimants state the amount of the claim against all the banks and for all class members at approx. NIS 500 million.

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The case is fixed for a preliminary hearing on May 23, 2017.

13.7 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. 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.

14. **Agreement between the Swiss Authorities and the U.S. Department of Justice.** On August 29, 2013, an agreement between the Swiss Authorities and the U.S. Department of Justice regarding the program for the settlement of disputes was published regarding deposits of U.S. citizens with Swiss banks (Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks).

The program differentiated between a number of categories. Category No. 1 included banks being under investigation or proceedings with the U.S. Department of Justice. According to publications, this category included fourteen banks and such banks were not permitted to participate in the program. It should be noted that IDB (Swiss) is not under investigation or other proceedings by the U.S. Department of Justice.

Category No. 2 was designed for banks that assume the existence of a possibility of effecting violations as detailed in the program. According to the program, banks wishing to be included in this category, could have applied to the U.S. Department of Justice until December 31, 2013, for an agreement for avoiding criminal charges against the bank (Non–Prosecution Agreement), and this only after the Justice Department receives and studies a report of an independent examiner submitted by the applying bank, and subject to the consent of the applying bank to pay a fine in an amount derived from the amount of funds deposited with it by its U.S. customers during the period relevant to the program.

Category No. 3 was designed for banks that declare and commit that they had not effected violations as detailed in the program. Banks that wished to be included in this category had to apply to the U.S. Department of Justice, for conformation that they are not targeted for enforcement actions by it (Non-Target letter).

Following an examination of the plan and relying, among other things, on outside legal advice rendered to IDB (Swiss) Bank, IDB (Swiss) Bank decided not to join the plan.

Additional details are presented in Note 26 C 15 to the financial statements as of December 31, 2015.

It should be noted that, on February 26, 2016, the transaction for the sale of the customer operations of IDB (Swiss) Bank was concluded and, on December 20, 2016, IDB (Swiss) Bank ceased activity as a banking corporation (see Note 15 E above).

Examination and investigation actions by the U.S. Authorities. According to publications and reports, certain Israeli banks are under different stages of examination and investigation on the part of the U.S. authorities or in the arrangement resulting from the aforesaid proceedings.

The Bank has no knowledge of investigative actions taken against the Bank or against any of its extensions by the U.S. authorities, as regards U.S. customers who had not complied with their obligations according to U.S. tax laws. Furthermore, as published, IDB (Swiss) Bank is not one of the corporations included in the category No. 1 of the Swiss program (namely, banks under investigation, which, therefore, may not participate in the Swiss program).

The Bank is adopting a series of measures for the management of the risk involved in its operations with its U.S. customers. However, in view of the said enforcement actions and due to the uncertainty existing in this matter, it is not possible to assess the risk involved in these operations.

15. On April 29, 2015, a member of a provident fund, which in the past had been managed by MDB, approached the present manager of that provident fund, raising various arguments in the matter of life assurance in his respect being a member of the provident fund. The member informed of his intention to file for approval of a class action in this matter. The present managing body of the provident fund informed MDB of the said approach, in view of the agreement for the sale of the provident fund signed in the past by MDB. MDB has no knowledge as to which years does that member refer to in his arguments and as to the scope of the financial damage alleged by him.

16. (a) Discount Capital (formerly known as: Israel Discount Capital Markets and Investments Ltd.) is a partner in several venture capital funds, private investment funds and in this respect is obligated to invest in these funds. As of December 31, 2016, Discount Capital has a commitment to additional investments in 17 such entities amounts totaling US$134 million (as of December 31, 2015: US$50 million).

(b) Discount Capital owns approx. 19.6% of the equity of Menif. The Board of Discount Capital had approved in the past granting guarantees for projects of Menif Company up to an amount of NIS 72.8 million. As of December 31, 2016, guaranties have been provided in the amount of NIS 69.5 million (December 31, 2015: NIS 53.2 million).

(c) In addition, MDB has a commitment to invest in four active venture capital funds amounts totaling approx. US$0.5 million, as of December 31, 2016 (December 31, 2015: US$0.7 million).

26. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

17. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008. The agreement with the State terminated on December 31, 2014.

    At the end of each calendar year, the Bank is required to provide an unconditional self-obligation to the sum of 10% of the balance of the loans or NIS 20 million, whichever is lower, until the full settlement of the loans provided within the framework of this engagement. The balance of loans amounted on December 31, 2016, to NIS 413 million.
18. **An agreement for provision of services to the teaching staff.** On September 26, 2007, the Bank signed an agreement for the granting of subsidized loans to teachers and of conditional loans to education students. The engagement with the Accountant General was terminated on June 30, 2014.

    At the end of each calendar year the Bank is required to forward an unconditional self commitment in an amount of 10% of the balance of loans or NIS 10 million, whichever is lower, until the repayment in full of all loans granted within the framework of the said engagement. The balance of loans amounted on December 31, 2016, to NIS 1.5 million.
19. **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. 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.

27. PLEDGES, RESTRICTIVE TERMS AND COLLATERAL

A. IDB New York has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2016 amounted to US$1,205 million (NIS 4,632 million) [December 31, 2015: US$1,390 million (NIS 5,424 million)].

In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of US$97 million (NIS 376 million) as of December 31, 2016 as a collateral for deposits received from it [as at December 31, 2015: US$71 million (NIS 276 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of US$1,048 million (NIS 4,029 million) as of December 31, 2016 [as at December 31, 2015: US$1,134 million (NIS 4,424 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million (NIS 58 million).

D. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. As of December 31, 2015 the deposit was nullified and it remained at a zero balance throughout the year 2016 (the highest balance of the collateral in 2015 was 258 million, while the average balance was NIS 176 million.

Mercantile Discount Bank also deposits liquid assets with foreign brokers (in the U.S.) as collateral for similar transactions. The balance of the collateral as of December 31, 2016, was NIS 1 million. The highest balance of the collateral was NIS 1 million, and the average balance was NIS 1 million.

E. Note 26 C 4 above describes the risk fund established by the Ma'of clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2016, amounted to NIS 96 million (December 31, 2015: NIS 40 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank's customers and in respect of the Bank's activity itself (nostro) as of December 31, 2016, was NIS 400 million (2015: NIS 78 million).

According to the Memorandum and Bye Laws of the Ma'of clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Ma'of clearing house and deposited liquid security only (State of Israel bonds and/or cash).

27. PLEDGES, RESTRICTIVE TERMS AND COLLATERAL (CONTINUED)

The Bank provided the Ma'of Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Ma'of Clearing House at the Stock Exchange Clearing House and at an account in the name of the Ma'of Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Ma'of transactions to which it is responsible towards the Ma'of Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts. Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Ma'of Clearing House, the amount of which at December 31, 2016, totaled NIS 482 million (December 31, 2015: NIS 332 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Ma'of Clearing House. The value of the collateral in favor of the Ma'of Clearing House, as stated, amounted on December 31, 2016, to NIS 48 million (December 31, 2015: NIS 66 million). In addition, pledged in favor of the Ma'of Clearing House were cash the balance of which amounted at December 31, 2016, to NIS 2 million (December 31, 2015: NIS 2 million).

Balance of collateral provided to the Ma'of Clearing House:

	Balance as of December 31, 2016	Highest balance during the year 2016	Average balance* in 2016	Balance as of December 31, 2015
	In NIS millions			
Cash	26	26	17	12
Securities	506	525	428	388

* The reporting is made on the basis of the month-end balances.

It is noted that on October 27 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the MAOF clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these 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 by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, it has been decided that members of the clearing houses would sign an additional pledge agreement, according to which, the rights of members in the accounts of the clearing houses with the Bank of Israel, would be pledged in favor of the clearing houses.

Moreover, according with the requirements of the Bank of Israel, members are required to sign an approval for the opening and management of the accounts with the Bank of Israel, drafted in accordance with the text approved as part of the by-laws. In addition, members will be asked, to the extent required, to provide authorization letters from prior pledge holders, as required by the by-laws, as approved.

The Bank has submitted comments to the documents and has not yet signed them.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

G. (1) The Bank enters into Credit Support Appendix (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits to the other party by way of a pledge, until the date of the next measurement. As of December 31, 2016, the Bank allocated in favor of various banks deposits in a total amount of NIS 783 million (December 31, 2015: NIS 522 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank with respect to the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

(2) IDB New York also engages in CSA type agreements. As of December 31, 2016, IDB New York provided in favor of various banks deposits in a total amount of US$3 million (NIS 12 million) [December 31, 2015: US$21 million (NIS 83 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2016, MDB provided in favor of various banks deposits in a total amount of NIS 3 million (December 31, 2015: NIS 11 million).

27. PLEDGES, RESTRICTIVE TERMS AND COLLATERAL (CONTINUED)

H. As detailed in Note 26 C 5 above, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearinghouse (hereinafter: "the Clearinghouse" or "Stock Exchange Clearinghouse"), the Bank pledged as security for its obligations towards the Clearinghouse all the Bank's rights in the security deposit managed by the Clearinghouse (in which the Bank deposits securities) and all its rights in funds under the name of the clearinghouse, deposited with another bank. The value of the collateral amounted on December 31, 2016, to NIS 236 million (as at December 31, 2015: NIS 80 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2016, amounted to NIS 17 million (December 31, 2015: NIS 12 million).

Balance of collateral provided to the Stock Exchange Clearing House:

	Balance as of December 31, 2016	Highest balance during the year 2016	Average balance* in 2016	Balance as of December 31, 2015
	In NIS millions			
Cash	20	23	20	17
Securities	233	233	152	75

* The reporting is made on the basis of the month-end balances.

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the new settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2016, at NIS 3.37 billion (December 31, 2015: NIS 3.42 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds in the amount of NIS 296 million (December 31, 2015: NIS 295 million).

Details of the pledge agreement:

	Balance as of December 31, 2016	Highest balance during the year 2016	Average balance* in 2016	Balance as of December 31, 2015
	In NIS millions			
Pledged securities (market value)	3,663	3,694	3,627	3,713

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2015-2016 in the said credit tenders.

Details of the deposits:

	Balance as of December 31, 2016	Highest balance during the year 2016	Average balance* in 2016	Balance as of December 31, 2015
	In NIS millions			
Deposits with the Bank of Israel	22,400	24,467	19,214	20,514

* The report is based on outstanding monthly balances.

27. PLEDGES, RESTRICTIVE TERMS AND COLLATERAL (CONTINUED)

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2016 was NIS 440 million (December 31, 2015: NIS 279 million).

L. The sources and uses of the securities that had been received and the Bank's and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect:

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	In NIS millions			
The sources:				
Securities recovered in transactions of burrowing securities against cash	440	277	440	277
Total	**440**	**277**	**440**	**277**
The uses:				
Securities sold under repurchase arrangements	4,029	4,424	-	-
Total	**4,029**	**4,424**	**-**	**-**

M. Details of securities pledged to the lenders:

	Consolidated		The Bank	
	December 31		December 31	
	2016	2015	2016	2015
	In NIS millions			
Available for sale securities	2,236	1,966	1,491	1,201
Held-to-maturity bonds	2,623	2,759	2,612	2,662
Total	**4,859**	**4,725**	**4,103**	**3,863**

These securities have bee deposited as collateral with the lenders, who are not permitted to sell or pledge them.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, SWAP, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Ma'of activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.

c. Market liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.

2. Where a derivative instrument is not intended as a qualified hedging, it is stated according to its fair value, and changes in fair value being taken currently to the statement of profit and loss. Some of these derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (ALM) and the balance of which if defined as other derivatives.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions.

   The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:

   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;

   b. The derivative expires, sold, cancelled or realized;

   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;

   d. A firm hedging commitment no longer complies with the definition of a firm commitment;

   e. Management cancels the designation of the derivative as a hedging derivative.

   When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value.

   When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.
6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.
7. Cash flow hedge

   The subsidiary IDB New York designates certain derivatives as hedge for cash flow. The accounting treatment of the change in the fair value of derivatives that hedge exposure to the change in the cash flow produced by an asset, liability or an anticipated transaction is dependent on the effectiveness of hedge ratios.

   - The effective part of the change in the fair value of a derivative, designated as a cash flow hedge, is reported in the first place in equity, as a component of other comprehensive income, and then, when the anticipated transaction affects the statement of profit and loss, it is classified to the statement of profit and loss.
   - The non-effective part of the change in the fair value of the derivative designated as above is immediately recognized in the statement of profit and loss.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS

1. PAR VALUE OF DERIVATIVE INSTRUMENTS

	December 31, 2016					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	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.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

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

1. PAR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

	December 31, 2015					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	3,401	-	-	-	3,401
Total	**-**	**3,401**	**-**	**-**	**-**	**3,401**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,401				
B. ALM derivatives[1][2]						
Futures contracts	-	4,683	-	-	-	4,683
Forward contracts	7,876	1,700	14,111	-	-	23,687
Marketable option contracts						
Options written	-	-	2,380	-	-	2,380
Options purchased	-	-	2,379	-	-	2,379
Other option contracts						
Options written	-	1,050	5,483	-	-	6,533
Options purchased	-	80	5,033	[3]-	-	5,113
Swaps	214	76,506	64,654	-	-	141,374
Total	**8,090**	**84,019**	**94,040**	**-**	**-**	**186,149**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	214	37,844				
C. Other derivatives[1]						
Futures contracts	-	88	-	-	26	114
Forward contracts	-	-	2,617	-	-	2,617
Marketable option contracts						
Options written	-	-	2	8,929	-	8,931
Options purchased	-	-	2	8,929	-	8,931
Other option contracts						
Options written	-	43	719	468	29	1,259
Options purchased	-	54	714	476	30	1,274
Swaps	-	6,391	-	-	-	6,391
Total	**-**	**6,576**	**[4]4,054**	**18,802**	**85**	**29,517**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,160				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			1,626			

Footnotes:

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

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

(3) An amount lower than NIS 1 million.

(4) Excluding transactions of IDB (Swiss) Bank, in the par value of NIS 491 million (equity value of NIS 3 million), which were classified as "available-for-sale", see Note 18B.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

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

2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS

	December 31, 2016					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	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	[4]-	480
Negative gross fair value	-	61	36	379	[4]-	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	-	[4]-	35	356	[4]-	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	[4]-	427

For footnotes see next page.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

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

2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

	December 31, 2015					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	9	-	-	-	9
Negative gross fair value	-	56	-	-	-	56
B. ALM derivatives[1]						
Positive gross fair value	168	1,739	959	[4]-	-	2,866
Negative gross fair value	149	2,009	938	-	-	3,096
C. Other derivatives						
Positive gross fair value	-	61	41	259	[4]-	361
Negative gross fair value	-	61	37	258	[4]-	356
D.Total						
Positive gross fair value[2]	168	1,809	1,000	259	-	3,236
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**168**	**1,809**	**1,000**	**259**	**-**	**3,236**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	[4]-	47	226	[4]-	273
Negative gross fair value [3]	149	2,126	975	258	-	3,508
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**149**	**2,126**	**975**	**258**	**-**	**3,508**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	1	80	226	[4]-	307

Footnotes:

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

(2) Of which: NIS 21 million (December 31, 2015: NIS 28 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 28 million (December 31, 2015: NIS 33 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

(4) An amount lower than NIS 1 million.

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. DERIVATIVE INSTRUMENT CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT ON A CONSOLIDATED BASIS

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2016					
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**
	December 31, 2015					
Balance sheet balance of assets in respect of derivative instruments(2)	78	2,359	28	1	770	3,236
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(1,986)	(11)	(1)	(226)	(2,225)
Credit risk mitigation in respect of cash collateral received	-	(220)	(3)	-	(34)	(257)
Net amount of assets in respect of derivative instruments	**77**	**153**	**14**	**-**	**510**	**754**
Off-balance sheet credit risk in respect of derivative instruments(1)	-	206	26	7	311	550
Total credit risk in respect of derivative instruments	**77**	**359**	**40**	**7**	**821**	**1,304**
Balance sheet balance of liabilities in respect of derivative instruments(3)	73	2,733	103	3	596	3,508
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(1,986)	(11)	(1)	(226)	(2,225)
Pledged cash collateral	-	(576)	-	-	-	(576)
Net amount of liabilities in respect of derivative instruments	**72**	**171**	**92**	**2**	**370**	**707**

Footnotes:

(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and the balance sheet amount of assets in respect of derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,283 million included in the item assets in respect of derivative instruments (December 31, 2015: NIS 3,208 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,570 million included in the item liabilities in respect of derivative instruments (December 31, 2015: NIS 3,475 million).

28. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. DUE DATES - PAR VALUE - CONSOLIDATED YEAR AND BALANCES

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	December 31, 2016				
Interest rate contracts					
Shekel/CPI	1,131	2,145	4,517	2,672	10,465
Other	7,804	19,624	37,191	27,625	92,244
Foreign currency contracts	49,420	29,967	6,990	3,578	89,955
Contracts on shares	14,004	300	1,023	-	15,327
Commodities and other contracts	1	32	41	-	74
Total	**72,360**	**52,068**	**49,762**	**33,875**	**208,065**
	December 31, 2015				
Interest rate contracts					
Shekel/CPI	1,519	1,519	3,431	1,621	8,090
Other	10,637	16,181	45,843	21,335	93,996
Foreign currency contracts	58,808	29,562	9,079	2,271	(1)99,720
Contracts on shares	17,839	330	633	-	18,802
Commodities and other contracts	11	15	59	-	85
Total	**88,814**	**47,607**	**59,045**	**25,227**	**220,693**

Footnote:

(1) Excluding transactions of IDB (Swiss) Bank, in the par value of NIS 491 million (equity value of NIS 3 million), which were classified as "available-for-sale", see Note 18B.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION

A. General

As stated in Note 1 C 5 (8) above, as from the financial statements as of December 31, 2015, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

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

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

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

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

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

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

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

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Act, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

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

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

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in affiliated companies.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

According to the instructions, the required disclosure is entering into effect as follows: the financial statements for 2015 include disclosure of the balance sheet items of the regulatory operating segments. The full disclosure requirements became effective as from the condensed financial statements as of March 31, 2016. Accordingly, the comparative data for 2015, are presented for the first time in these statements.

For details regarding managerial segments, see Note 30 below.

B. Classification of customers in certain cases. It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

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

C. **Changes in classification**. Some of the data as of December 31, 2015, which was included in the 2016 interim financial statements, have been improved in this report.

D. **The principal assumptions, estimates and principles used in the preparation of segment information**

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. **Income**

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks.

According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

2. **Expenses**

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to items 1 and 2 above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);
- Allocation of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses in respect of mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 35.9% (2015: 37.58%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the statutory tax, net, recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel III.

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment: 9.06% in 2015, 9.15% in 2016.

4. Presentation of inter-segment expenses

The accountability between the profit centers in the Bank is made as described in item 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services).

According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

	For the year ended December 31, 2016				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income From external sources	1,704	3	1,494	367	659
Interest expenses To external sources	171	72	53	11	34
Interest income, net From external sources	1,533	(69)	1,441	356	625
Interest income, net Intersegmental	(187)	114	(123)	(64)	(152)
Total Interest income, net	1,346	45	1,318	292	473
Non-interest income From external sources	1,599	283	560	151	239
Non-interest income Intersegmental	(316)	(216)	44	(4)	(18)
Total Non-interest income	1,283	67	604	147	221
Total income	**2,629**	**112**	**1,922**	**439**	**694**
Credit loss expenses (expenses reversal)	216	1	90	46	(40)
Operating and other expenses	2,871	120	1,364	289	306
Profit (loss) before taxes	(458)	(9)	468	104	428
Provision for taxes (tax savings) on profit	(103)	(1)	208	48	166
Profit (loss) after taxes	(355)	(8)	260	56	262
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(355)	(8)	260	56	262
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(41)	-	3	1	2
Net Profit (loss) Attributed to the bank's shareholders	**(396)**	**(8)**	**263**	**57**	**264**
Average Assets	50,174	228	32,168	10,532	20,510
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	49,230	162	31,708	10,581	20,696
Balance of credit to the public at the end of the reporting period(3)	51,488	214	34,219	12,398	21,438
Balance of impaired debts	61	-	909	316	725
Balance of debts (not impaired) in arrear for over ninety days	381	-	51	7	1
Average Liabilities	71,388	14,595	30,765	6,938	13,830
Of which - Average Deposits from the public	66,917	14,485	26,838	6,189	12,025
Balance and deposits from the public at the end of the reporting period	67,496	16,221	27,729	6,982	14,285
Average Risk-assets(1)	34,898	404	32,592	16,049	25,107
Balance of Risk-assets at the end of the reporting period(1)	37,081	386	34,023	15,873	25,335
Average assets under management(2)	37,354	18,658	24,702	7,502	29,528
Interest income, net:					
Margin from credit activity to the public	1,183	1	1,255	278	454
Margin from deposits activity from the public	163	44	63	14	19
Other	-	-	-	-	-
Total Interest income, net	**1,346**	**45**	**1,318**	**292**	**473**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) See Note 36 F.

Institutional bodies	Financial management	Total Domestic operations	International operations: Private Individuals	International operations: business operations	International operations: Other	International operations: total International operations	total
28	359	4,614	50	727	280	1,057	5,671
23	425	789	59	85	169	313	1,102
5	(66)	3,825	(9)	642	111	744	4,569
27	385	-	148	(71)	(77)	-	-
32	319	3,825	139	571	34	744	4,569
50	332	3,214	91	74	60	225	3,439
(33)	543	-	-	-	-	-	-
17	[4]875	3,214	91	74	60	225	3,439
49	**1,194**	**7,039**	**230**	**645**	**94**	**969**	**8,008**
30	-	343	1	125	-	126	469
75	[4]255	5,280	226	240	68	534	5,814
(56)	939	1,416	3	280	26	309	1,725
(19)	337	636	13	100	4	117	753
(37)	602	780	(10)	180	22	192	972
-	15	15	-	-	-	-	15
(37)	617	795	(10)	180	22	192	987
-	(47)	(82)	-	-	-	-	(82)
(37)	**570**	**713**	**(10)**	**180**	**22**	**192**	**905**
1,181	59,925	174,718	1,928	20,575	12,438	34,941	209,659
-	143	143	-	-	-	-	143
1,054	-	113,431	1,544	19,831	-	21,375	134,806
1,047	-	120,804	1,523	20,577	-	22,100	142,904
597	-	2,608	-	335	-	335	2,943
-	-	440	-	-	-	-	440
11,009	15,909	164,434	10,867	15,542	5,022	31,431	195,865
10,973	-	137,427	10,838	15,210	-	26,048	163,475
13,185	-	145,898	10,670	15,750	-	26,420	172,318
1,294	13,698	124,042	2,627	21,347	6	23,980	148,022
1,552	14,050	128,300	3,177	21,410	3	24,590	152,890
57,708	6,326	181,778	13,139	-	-	13,139	194,917
18	-	3,189	27	284	-	311	3,500
14	-	317	112	287	-	399	716
-	319	319	-	-	34	34	353
32	**319**	**3,825**	**139**	**571**	**34**	**744**	**4,569**

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

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

	For the year ended December 31, 2015				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income From external sources	1,510	3	1,387	352	580
Interest expenses To external sources	139	67	49	10	26
Interest income, net From external sources	1,371	(64)	1,338	342	554
Interest income, net Intersegmental	(184)	99	(131)	(60)	(139)
Total Interest income, net	1,187	35	1,207	282	415
Non-interest income From external sources	1,677	264	624	124	208
Non-interest income Intersegmental	(390)	(190)	(26)	12	8
Total Non-interest income	1,287	74	598	136	216
Total income	**2,474**	**109**	**1,805**	**418**	**631**
Credit loss expenses (expenses reversal)	75	1	52	84	(40)
Operating and other expenses	2,766	119	1,253	261	246
Profit (loss) before taxes	(367)	(11)	500	73	425
Provision for taxes (tax savings) on profit	(104)	(3)	201	31	156
Profit (loss) after taxes	(263)	(8)	299	42	269
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(263)	(8)	299	42	269
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(38)	-	(13)	(3)	(8)
Net Profit (loss) Attributed to the bank's shareholders	**(301)**	**(8)**	**286**	**39**	**261**
Average Assets	44,347	239	29,234	10,543	19,307
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	43,784	165	28,700	10,455	19,038
Balance of credit to the public at the end of the reporting period(3)	44,572	240	30,930	11,466	19,649
Balance of impaired debts	64	-	1,112	576	949
Balance of debts (not impaired) in arrear for over ninety days	384	1	21	6	-
Average Liabilities	64,891	14,451	28,275	6,790	11,440
Of which - Average Deposits from the public	62,789	14,324	24,837	5,933	9,578
Balance of deposits from the public at the end of the reporting period	62,916	16,185	25,055	6,159	10,203
Average Risk-assets(1)	32,367	380	29,253	14,933	24,471
Balance of Risk-assets at the end of the reporting period (1)	33,395	472	30,511	15,572	24,336
Average assets under management(2)	41,728	19,163	24,079	8,591	29,433
Interest income, net:					
Margin from credit activity to the public	1,019	2	1,146	271	401
Margin from deposits activity from the public	168	33	61	11	14
Other	-	-	-	-	-
Total Interest income, net	**1,187**	**35**	**1,207**	**282**	**415**

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.

	Institutional bodies	Financial management	Total Domestic operations	International operations: Private Individuals	International operations: business orerations	International operations: Other	International operations: total International operations	total
	26	308	4,166	150	665	286	1,101	5,267
	23	423	737	59	70	176	305	1,042
	3	(115)	3,429	91	595	110	796	4,225
	26	389	-	110	(66)	(44)	-	-
	29	274	3,429	201	529	66	796	4,225
	11	(116)	2,792	185	71	5	261	3,053
	1	585	-	-	-	-	-	-
	12	469	2,792	185	71	5	261	3,053
	41	**743**	**6,221**	**386**	**600**	**71**	**1,057**	**7,278**
	5	-	177	(3)	13	-	10	187
	62	238	4,945	467	245	68	780	5,725
	(26)	505	1,099	(78)	342	3	267	1,366
	(8)	177	450	(16)	131	3	118	568
	(18)	328	649	(62)	211	-	149	798
	-	9	9	-	-	-	-	9
	(18)	337	658	(62)	211	-	149	807
	-	5	(57)	-	-	-	-	(57)
	(18)	**342**	**601**	**(62)**	**211**	**-**	**149**	**750**
	908	62,813	167,391	6,806	18,773	12,698	38,277	205,668
	-	140	140	-	-	-	-	140
	878	-	103,020	1,854	19,726	-	21,580	124,600
	1,089	-	107,946	1,425	19,897	-	21,322	129,268
	-	-	2,701	-	243	-	243	2,944
	-	-	412	-	-	-	-	412
	11,181	20,603	157,631	16,204	13,579	5,271	(4)35,054	192,685
	11,147	-	128,608	16,117	13,553	-	(4)29,670	158,278
	11,735	-	132,253	10,502	15,120	-	25,622	157,875
	1,027	14,156	116,587	3,801	21,720	5	25,526	142,113
	1,127	12,902	118,315	2,996	21,132	17	24,145	142,460
	47,974	3,937	174,905	15,673	-	-	15,673	190,578
	17	-	2,856	133	280	-	413	3,269
	12	-	299	68	249	-	317	616
	-	274	274	-	-	66	66	340
	29	**274**	**3,429**	**201**	**529**	**66**	**796**	**4,225**

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED

	For the year ended December 31, 2016								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Other
	in NIS millions								
Interest income From external sources	549	386	769	1,704	1	-	2	3	1,707
Interest expenses From external sources	-	(2)	173	171	-	-	72	72	243
Interest income, net From external sources	549	388	596	1,533	1	-	(70)	(69)	1,464
Interest income, net Intersegmental	(395)	(35)	243	(187)	(1)	-	115	114	(73)
Total Interest income, net	154	353	839	1,346	-	-	45	45	1,391
Non-interest income From external sources	28	752	819	1,599	-	-	283	283	1,882
Non-interest income Intersegmental	-	-	(316)	(316)	-	-	(216)	(216)	(532)
Total Non-interest income	28	752	503	1,283	-	-	67	67	1,350
Total income	**182**	**1,105**	**1,342**	**2,629**	**-**	**-**	**112**	**112**	**2,741**
Credit loss expenses	8	73	135	216	-	-	1	1	217
Operating and other expenses	123	789	1,959	2,871	-	-	120	120	2,991
Profit (loss) before taxes	51	243	(752)	(458)	-	-	(9)	(9)	(467)
Provision for taxes (tax savings) on profit	21	96	(220)	(103)	-	-	(1)	(1)	(104)
Profit (loss) after taxes	30	147	(532)	(355)	-	-	(8)	(8)	(363)
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(41)	-	(41)	-	-	-	-	(41)
Net Profit (loss) Attributed to the bank's shareholders	**30**	**106**	**(532)**	**(396)**	**-**	**-**	**(8)**	**(8)**	**(404)**
Average Assets	23,382	11,107	15,685	50,174	69	35	124	228	50,402
Average credit to the public(3)	23,484	10,993	14,753	49,230	69	35	58	162	49,392
Balance of credit to the public at the end of the reporting period(3)	25,624	11,715	14,149	51,488	72	36	106	214	51,702
Balance of impaired debts	-	22	39	61	-	-	-	-	61
Balance of debts (not impaired) in arrear for over ninety days	299	-	82	381	-	-	-	-	381
Average Liabilities	19	2,341	69,028	71,388	-	32	14,563	14,595	85,983
Of which - Average Deposits from the public	-	18	66,899	66,917	-	-	14,485	14,485	81,402
Balance of deposits from the public at the end of the reporting period	-	19	67,477	67,496	-	-	16,221	16,221	83,717
Average Risk-assets(1)	12,446	9,777	12,675	34,898	44	55	305	404	35,302
Balance of Risk-assets at the end of the reporting period (1)	14,203	8,668	14,210	37,081	36	34	316	386	37,467
Average assets under management(2)	533	-	36,821	37,354	-	-	18,658	18,658	56,012
Interest income, net:									
Margin from credit activity to the public	154	353	676	1,183	-	-	1	1	1,184
Margin from deposits activity from the public	-	-	163	163	-	-	44	44	207
Other	-	-	-	-	-	-	-	-	-
Total Interest income, net	**154**	**353**	**839**	**1,346**	**-**	**-**	**45**	**45**	**1,391**

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.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2015								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Other
	in NIS millions								
Interest income From external sources	497	318	695	1,510	1	-	2	3	1,513
Interest expenses From external sources	-	(2)	141	139	-	-	67	67	206
Interest income, net From external sources	497	320	554	1,371	1	-	(65)	(64)	1,307
Interest income, net Intersegmental	(371)	(28)	215	(184)	(1)	-	100	99	(85)
Total Interest income, net	126	292	769	1,187	-	-	35	35	1,222
Non-interest income From external sources	31	713	933	1,677	-	-	264	264	1,941
Non-interest income Intersegmental	-	-	(390)	(390)	-	-	(190)	(190)	(580)
Total Non-interest income	31	713	543	1,287	-	-	74	74	1,361
Total income	**157**	**1,005**	**1,312**	**2,474**	**-**	**-**	**109**	**109**	**2,583**
Credit loss expenses (expenses reversal)	(2)	63	14	75	-	-	1	1	76
Operating and other expenses	118	775	1,873	2,766	-	-	119	119	2,885
Profit (loss) before taxes	41	167	(575)	(367)	-	-	(11)	(11)	(378)
Provision for taxes (tax savings) on profit	16	67	(187)	(104)	-	-	(3)	(3)	(107)
Profit (loss) after taxes	25	100	(388)	(263)	-	-	(8)	(8)	(271)
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(38)	-	(38)	-	-	-	-	(38)
Net Profit (loss) Attributed to the bank's shareholders	**25**	**62**	**(388)**	**(301)**	**-**	**-**	**(8)**	**(8)**	**(309)**
Average Assets	20,734	10,215	13,398	44,347	61	21	157	239	44,586
Average credit to the public at the end of the reporting period (3)	20,861	10,070	12,853	43,784	60	21	84	165	43,949
Balance of credit to the public at the end of the reporting period (3)	21,691	10,186	12,695	44,572	68	38	134	240	44,812
Balance of impaired debts	1	10	53	64	-	-	-	-	64
Balance of debts (not impaired) in arrear for over ninety days	328	-	56	384	-	-	1	1	385
Average Liabilities	40	1,237	63,614	64,891	-	-	14,451	14,451	79,342
Of which - Average Deposits from the public	-	16	62,773	62,789	-	-	14,324	14,324	77,113
Balance of deposits from the public at the end of the reporting period	-	17	62,899	62,916	-	-	16,185	16,185	79,101
Average Risk-assets(1)	10,353	7,038	14,976	32,367	34	34	312	380	32,747
'Balance of Risk-assets at the end of the reporting period (1)	9,773	6,907	16,715	33,395	88	35	349	472	33,867
Average assets under management(2)	685	-	41,043	41,728	-	-	19,163	19,163	60,891
Interest income, net:									
Margin from credit activity to the public	126	292	601	1,019	-	-	2	2	1,021
Margin from deposits activity from the public	-	-	168	168	-	-	33	33	201
Other	-	-	-	-	-	-	-	-	-
Total Interest income, net	**126**	**292**	**769**	**1,187**	**-**	**-**	**35**	**35**	**1,222**

Footnotes:

(1) Risk weighted assets-as computed for capital edequacy purposes

(2) Managed assets-including assetsof 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.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

G. SMALL, MINUTE, MEDIUM AND LARGE BUSINESS - OPERATIONS IN ISRAEL, CONSOLIDATED

	For the year ended December 31, 2016									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	total	Construction and real estate	Other	total	Construction and real estate	Other	total	total
	in NIS millions									
Interest income From external sources	396	1,098	1,494	97	270	367	149	510	659	2,520
Interest expenses From external sources	8	45	53	1	10	11	5	29	34	98
Interest income, net From external sources	388	1,053	1,441	96	260	356	144	481	625	2,422
Interest income, net Intersegmental	(64)	(59)	(123)	(16)	(48)	(64)	(40)	(112)	(152)	(339)
Total Interest income, net	324	994	1,318	80	212	292	104	369	473	2,083
Non-interest income From external sources	59	501	560	59	92	151	44	195	239	950
Non-interest income Intersegmental	30	14	44	6	(10)	(4)	17	(35)	(18)	22
Total Non-interest income	89	515	604	65	82	147	61	160	221	972
Of which - Credit Card income	-	134	134	-	25	25	-	77	77	236
Total income	**413**	**1,509**	**1,922**	**145**	**294**	**439**	**165**	**529**	**694**	**3,055**
Credit loss expenses (expenses reversal)	(10)	100	90	(23)	69	46	(116)	76	(40)	96
Operating and other expenses	146	1,218	1,364	27	262	289	9	297	306	1,959
Profit (loss) before taxes	277	191	468	141	(37)	104	272	156	428	1,000
Provision for taxes (tax savings) on profit	102	106	208	51	(3)	48	99	67	166	422
Profit (loss) after taxes	175	85	260	90	(34)	56	173	89	262	578
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	3	3	-	1	1	-	2	2	6
Net Profit (loss) Attributed to the bank's shareholders	**175**	**88**	**263**	**90**	**(33)**	**57**	**173**	**91**	**264**	**584**
Average Assets	10,064	22,104	32,168	2,892	7,640	10,532	4,481	16,029	20,510	63,210
Average credit to the public[(3)]	10,036	21,672	31,708	2,919	7,662	10,581	4,529	16,167	20,696	62,985
Balance of credit to the public[(3)]	10,357	23,862	34,219	2,866	9,532	12,398	5,066	16,372	21,438	68,055
Balance of impaired debts	421	488	909	98	218	316	10	715	725	1,950
Balance of debts (not impaired) in arrear for over ninety days	6	45	51	5	2	7	-	1	1	59
Average Liabilities	4,246	26,519	30,765	1,229	5,709	6,938	1,482	12,348	13,830	51,533
Of which - Average Deposits from the public	4,149	22,689	26,838	1,212	4,977	6,189	1,467	10,558	12,025	45,052
Balance of deposits from the public at the end of the reporting period	4,324	23,405	27,729	1,486	5,496	6,982	1,897	12,388	14,285	48,996
Average Risk-assets[(1)]	10,653	21,939	32,592	4,783	11,266	16,049	7,685	17,422	25,107	73,748
Balance of Risk-assets at the end of the reporting period[(1)]	11,314	22,709	34,023	5,000	10,873	15,873	8,037	17,298	25,335	75,231
Average assets under management[(2)]	343	24,359	24,702	624	6,878	7,502	84	29,444	29,528	61,732
Interest income, net:										
Margin from credit activity to the public	314	941	1,255	78	200	278	103	351	454	1,987
Margin from deposits activity from the public	10	53	63	2	12	14	1	18	19	96
Other	-	-	-	-	-	-	-	-	-	-
Total Interest income, net	**324**	**994**	**1,318**	**80**	**212**	**292**	**104**	**369**	**473**	**2,083**

Footnotes:

(1) Risk weighted assets-as computed for capital edequacy purposes

(2) Managed assets-including assetsof 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.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

G. SMALL, MINUTE, MEDIUM AND LARGE BUSINESS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2015									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	total	Construction and real estate	Other	total	Construction and real estate	Other	total	total
	in NIS millions									
Interest income From external sources	381	1,006	1,387	89	263	352	116	464	580	2,319
Interest expenses From external sources	7	42	49	3	7	10	4	22	26	85
Interest income, net From external sources	374	964	1,338	86	256	342	112	442	554	2,234
Interest income, net Intersegmental	(74)	(57)	(131)	(15)	(45)	(60)	(34)	(105)	(139)	(330)
Total Interest income, net	300	907	1,207	71	211	282	78	337	415	1,904
Non-interest income From external sources	49	575	624	26	98	124	27	181	208	956
Non-interest income Intersegmental	27	(53)	(26)	24	(12)	12	30	(22)	8	(6)
Total Non-interest income	76	522	598	50	86	136	57	159	216	950
Of which - Credit Card income	-	126	126	-	25	25	-	72	72	223
Total income	**376**	**1,429**	**1,805**	**121**	**297**	**418**	**135**	**496**	**631**	**2,854**
Expenses (expense reversal) for credit loss expenses(4)	(7)	59	52	25	59	84	(113)	73	(40)	96
Operating and other expenses	132	1,121	1,253	21	240	261	8	238	246	1,760
Profit (loss) before taxes	251	249	500	75	(2)	73	240	185	425	998
Provision for taxes on profit	97	104	201	29	2	31	92	64	156	388
Profit (loss) after taxes	154	145	299	46	(4)	42	148	121	269	610
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(13)	(13)	-	(3)	(3)	-	(8)	(8)	(24)
Net Profit (loss) Attributed to the bank's shareholders	**154**	**132**	**286**	**46**	**(7)**	**39**	**148**	**113**	**261**	**586**
Average Assets	9,123	20,111	29,234	2,730	7,813	10,543	3,947	15,360	19,307	59,084
Average credit to the public(3)	9,083	19,617	28,700	2,722	7,733	10,455	3,967	15,071	19,038	58,193
Balance of credit to the public at the end of the reporting period(3)	9,470	21,460	30,930	3,037	8,429	11,466	4,215	15,434	19,649	62,045
Balance of impaired debts	449	663	1,112	154	422	576	38	911	949	2,637
Balance of debts (not impaired) in arrear for over ninety days	3	18	21	5	1	6	-	-	-	27
Average Liabilities	3,714	24,561	28,275	977	5,813	6,790	1,304	10,136	11,440	46,505
Of which - Average Deposits from the public	3,635	21,202	24,837	965	4,968	5,933	1,301	8,277	9,578	40,348
Balance of deposits from the public at the end of the reporting period	3,637	21,418	25,055	1,198	4,961	6,159	1,837	8,366	10,203	41,417
Average Risk-assets(1)	9,766	19,487	29,253	4,439	10,494	14,933	6,629	17,842	24,471	68,657
Balance of Risk-assets at the end of the reporting period(1)	10,257	20,254	30,511	4,755	10,817	15,572	7,465	16,871	24,336	70,419
Average assets under management(2)	710	23,369	24,079	192	8,399	8,591	147	29,286	29,433	62,103
Interest income, net:										
Margin from credit activity to the public	291	855	1,146	71	200	271	77	324	401	1,818
Margin from deposits activity from the public	9	52	61	-	11	11	1	13	14	86
Other	-	-	-	-	-	-	-	-	-	-
Total Interest income, net	**300**	**907**	**1,207**	**71**	**211**	**282**	**78**	**337**	**415**	**1,904**

Footnotes:
(1) Risk weighted assets-as computed for capital edequacy purposes
(2) Managed assets-including assetsof 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.

29. REGULATORY OPERATING SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

H. INFORMATION ON GEOGRAPHICAL AREAS

	Income[1]			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year ended December 31						As at December 31	
	2016	2015	2014	2016	2015	2014	2016	2015
	in NIS millions							
Israel	7,036	6,225	6,353	713	599	400	183,778	166,987
Europe	17	63	140	(1)	(39)	19	194	1,924
North America	951	834	766	193	186	138	35,605	36,100
Sout America	4	156	112	-	4	(52)	-	249
Total Overseas	**972**	**1,053**	**1,018**	**192**	**151**	**105**	**35,799**	**38,273**
Total Consolidated	**8,008**	**7,278**	**7,371**	**905**	**750**	**505**	**219,577**	**205,260**

Footnote:

(1) Income-Interest income, net, before credit loss expenses and non-interest income.

It is noted that in view of the sale of the operations of Discount Bank Latin America (see Note 15D), the operations in South America discontinued. It is also noted that in view of the sale of operations of IDB (Swiss) Bank and the closing down of the London Branch, operations in Europe are discontinued also.

30. MANAGERIAL OPERATING SEGMENTS

A. General

1. According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital Markets and Investments, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - **Segments under responsibility of the Banking Division** (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment.
   - **Segment under the responsibility of the Corporate Division** (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - **Segment under the responsibility of the Financial Markets Division** (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - **Segments including the activities of the principal subsidiaries in the Group:**

     Discount Capital Markets and Investments – Activity in the field of investment banking, of investments (in private equity funds, in venture capital funds and in other non-financial investments), in the field of securities distribution and in the underwriting and management of issuance.

30. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB New York.

ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- **Other segment** – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. **A change in the organizational structure.** In the financial statements as of December 31, 2015, the customer asset segment was presented in accordance with the organizational structure that was in effect in the respective reporting periods. In view of the decision of the Bank's Board of Directors to abolish the Customer Asset Division and attach its units to existing divisions/groups at the Bank, the said segment is no longer presented separately. The data relating to private banking customers are presented now as part of the retail banking segment. The comparative data has been restated accordingly.
4. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, in accordance with criteria used for dividing the activity between the administrative segments.

30. MANAGERIAL OPERATING SEGMENTS (CONTINUED)

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Retail banking(2)	Middle market banking	Corporate banking	Financial management	Discount Capital(1)
	In NIS millions				
	For the year ended December 31, 2016				
Interest income, net	1,946	343	826	335	1
Non-interest income	1,104	100	376	367	109
Total income	**3,050**	**443**	**1,202**	**702**	**110**
Credit loss expenses (expenses reversal)	239	5	9	14	-
Operating and other expenses	3,231	345	483	211	28
Income (loss) before taxes	(420)	93	710	477	82
Provision for taxes (tax reversal) on profit	(76)	41	267	208	13
Income (loss) after taxes	(344)	52	443	269	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	(343)	52	443	276	78
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	**(343)**	**52**	**443**	**276**	**78**
Balance of Assets	63,733	11,915	39,084	70,864	1,267
Balance of credit to the public	61,690	12,002	40,726	-	-
Balance of deposits from the public	109,485	5,477	30,141	5,694	-

	Retail banking(2)	Middle market banking	Corporate banking	Financial management	Discount Capital(1)
	For the year ended December 31, 2015				
	In NIS millions				
Interest income, net	1,753	332	737	305	1
Non-interest income	1,147	93	357	241	101
Total income	**2,900**	**425**	**1,094**	**546**	**102**
Credit loss expenses (expenses reversal)	119	18	8	-	-
Operating and other expenses	3,097	343	434	192	13
Income (loss) before taxes	(316)	64	652	354	89
Provision for taxes (tax reversal) on profit	(79)	28	246	147	11
Income (loss) after taxes	(237)	36	406	207	78
Bank's share in income of affiliated companies, net of tax effect	1	-	-	7	3
Net income (loss) before attributed to the non-controlling rights holders	(236)	36	406	214	81
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	**(236)**	**36**	**406**	**214**	**81**
Balance of Assets	55,692	11,283	35,876	68,015	1,110
Balance of credit to the public	54,117	11,542	35,971	-	-
Balance of deposits from the public	101,973	6,191	24,525	5,654	-

footnotes:

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

(2) See A 3 above.

(3) Reclassified - see Note 1 G.

(4) See Note 36 E and F.

	Discount Bancorp(1)	Israel Credit Cards(1)	other	Adjustments	Total
	747	362	3	6	4,569
	208	(4)1,260	71	(156)	3,439
	955	**1,622**	**74**	**(150)**	**8,008**
	127	75	-	-	469
	527	(4)1,105	35	(151)	5,814
	301	442	39	1	1,725
	108	174	16	2	753
	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

	Discount Bancorp(1)	Israel Credit Cards(1)	other	Adjustments	Total
	774	290	29	4	4,225
	216	950	102	(154)	3,053
	990	**1,240**	**131**	**(150)**	**7,278**
	11	34	(1)	(2)	187
	665	965	163	(147)	5,725
	314	241	(31)	(1)	1,366
	124	90	1	-	568
	190	151	(32)	(1)	798
	-	1	-	(3)	9
	190	152	(32)	(4)	807
	-	(57)	(2)	2	(57)
	190	**95**	**(34)**	**(2)**	**750**
	36,353	10,991	7,970	(22,030)	205,260
	21,321	10,718	-	(4,401)	129,268
	(3)25,582	17	-	(6,067)	157,875

31. 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2016					
Balance of allowance for credit losses, as at December 31, 2015[1]	1,675	176	407	2,258	3	2,261
Expenses (expenses reversal) for credit loss	255	8	209	472	(3)	469
Accounting write-offs	(569)	(16)	(327)	(912)	-	(912)
Collection of debts written-off in previous years	345	-	180	525	-	525
Net accounting write-offs	(224)	(16)	(147)	(387)	-	(387)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at December 31, 2016	**1,702**	**168**	**469**	**2,339**	**[2]-**	**2,339**
Of which: In respect of off-balance sheet credit instruments	161	-	34	195	-	195
	2015					
Balance of allowance for credit losses, as at December 31, 2014[1]	1,545	263	411	2,219	5	2,224
Expenses (expenses reversal) for credit loss	115	5	69	189	(2)	187
Accounting write-offs	(390)	(92)	(262)	(744)	-	(744)
Collection of debts written-off in previous years	404	-	189	593	-	593
Net accounting write-offs	14	(92)	(73)	(151)	-	(151)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at December 31, 2015[1]	**1,675**	**176**	**407**	**2,258**	**3**	**2,261**
Of which: In respect of off-balance sheet credit instruments	170	3	33	206	-	206
	2014					
Balance of allowance for credit losses, as at December 31, 2013[1]	1,709	255	354	2,318	3	2,321
Expenses for credit loss	30	19	113	162	2	164
Accounting write-offs	(662)	(11)	(259)	(932)	-	(932)
Collection of debts written-off in previous years	441	-	203	644	-	644
Net accounting write-offs	(221)	(11)	(56)	(288)	-	(288)
Financial statements translation adjustments	27	-	-	27	-	27
Assets and liabilities held for sale	1,545	263	411	2,219	5	2,224
Balance of allowance for credit losses, as at December 31, 2014[1]	**1,545**	**263**	**411**	**2,219**	**5**	**2,224**
Of which: In respect of off-balance sheet credit instruments	134	3	33	170	-	170

Footnotes:

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

(2) An amount lower than NIS 1 million.

31. 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

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2016					
Recorded amount of debts:						
Examined on a specific basis(1)	63,292	-	(3)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	(3)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	-	(3)12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(4)3	(4)168	-	171	-	171
Group - other	362	-	(3)423	785	(5)-	785
Total allowance for Credit Losses	**1,541**	**168**	**435**	**2,144**	**(5)-**	**2,144**
	December 31,2015					
Recorded amount of debts:						
Examined on a specific basis(1)	60,604	-	2,988	63,592	3,168	66,760
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)231	21,759	-	21,990	-	21,990
Group - other	(2)22,633	49	21,004	43,686	3,102	46,788
Total debts	**83,468**	**21,808**	**23,992**	**129,268**	**6,270**	**135,538**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,211	-	47	1,258	1	1,259
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(4)2	(4)173	-	175	-	175
Group - other	292	-	327	619	2	621
Total allowance for Credit Losses	**1,505**	**173**	**374**	**2,052**	**3**	**2,055**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 64,855 million (December 31, 2015 - NIS 63,816 million) and the allowance in its respect in an amount of NIS 799 million (December 31, 2015 - NIS 796 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 (as of December 31, 2015 – an amount of NIS 236 million).

(3) For details regarding changes in accounting policy in the matter of "classification of problematic debts and allowances for credit losses", see Note 1G.

(4) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 2 million (December 31, 2015 - NIS 3 million), and computed on a group basis in an amount of NIS 94 million (December 31, 2015 - NIS 79 million).

(5) An amount lower than NIS 1 million.

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

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

3. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES – THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2016					
Balance of allowance for credit losses, as at December 31, 2015	1,112	160	198	1,470	(1)-	1,470
Credit loss expenses	99	7	126	232	-	232
Accounting write-offs	(348)	(16)	(182)	(546)	-	(546)
Collection of debts written-off in previous years	280	-	89	369	-	369
Net accounting write-offs	(68)	(16)	(93)	(177)	-	(177)
Balance of allowance for credit losses, as at December 31, 2016	**1,143**	**151**	**231**	**1,525**	**(1)-**	**1,525**
Of which: In respect of off-balance sheet credit instruments	134	-	14	148	-	148
	2015					
Balance of allowance for credit losses, as at December 31, 2014	1,039	251	204	1,494	(1)-	1,494
Credit loss expenses	35	1	39	75	-	75
Accounting write-offs	(301)	(92)	(150)	(543)	-	(543)
Collection of debts written-off in previous years	339	-	105	444	-	444
Net accounting write-offs	38	(92)	(45)	(99)	-	(99)
Balance of allowance for credit losses, as at December 31, 2015	**1,112**	**160**	**198**	**1,470**	**(1)-**	**1,470**
Of which: In respect of off-balance sheet credit instruments	142	3	14	159	-	159
	2014					
Balance of allowance for credit losses, as at December 31, 2013	1,193	241	155	1,589	(1)-	1,589
Credit loss expenses (expenses reversal)	(3)	20	82	99	-	99
Accounting write-offs	(516)	(10)	(137)	(663)	-	(663)
Collection of debts written-off in previous years	365	-	104	469	-	469
Net accounting write-offs	(151)	(10)	(33)	(194)	-	(194)
Balance of allowance for credit losses, as at December 31, 2014	**1,039**	**251**	**204**	**1,494**	**(1)-**	**1,494**
Of which: In respect of off-balance sheet credit instruments	120	3	12	135	-	135

Note:
(1) An amount lower than NIS 1 million.

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

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

4. 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 – THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31,2016					
Recorded amount of debts:						
Examined on a specific basis(1)	50,246	-	255	50,501	3,901	54,402
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	170	21,952	-	22,122	-	22,122
Group - other	6,247	-	13,200	19,447	-	19,447
Total debts	**56,663**	**21,952**	**13,455**	**92,070**	**3,901**	**95,971**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	916	-	5	921	-	921
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)3	(2)151	-	154	-	154
Group - other	90	-	212	302	(3)-	302
Total allowance for Credit Losses	**1,009**	**151**	**217**	**1,377**	**(3)-**	**1,377**
	December 31,2015					
Recorded amount of debts:						
Examined on a specific basis(1)	45,760	-	460	46,220	4,653	50,873
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	143	18,449	-	18,592	-	18,592
Group - other	4,708	-	12,012	16,720	-	16,720
Total debts	**50,611**	**18,449**	**12,472**	**81,532**	**4,653**	**86,185**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	898	-	8	906	-	906
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)2	(2)157	-	159	-	159
Group - other	70	-	176	246	(3)-	246
Total allowance for Credit Losses	**970**	**157**	**184**	**1,311**	**(3)-**	**1,311**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 52,138 million (December 31, 2015 - NIS 48,523 million) and the allowance in its respect in an amount of NIS 620 million (December 31, 2015 - NIS 542 million) computed on a group basis.

(2) 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 1 million (December 31, 2015- NIS 2 million), computed on a group basis in amount of NIS 81 million (December 31, 2015- NIS 67 million).

(3) An amount lower than NIS 1 million.

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

B. DEBTS

1. CREDIT QUALITY AND ARREARS - CONSOLIDATED

	December 31, 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	8,928	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**

For footnotes see next page.

31. 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)

	December 31, 2015					
		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	6,350	87	117	6,554	7	[6]32
Construction and Real Estate - Real Estate Activity	8,734	278	276	9,288	-	[6]7
Financial Services	5,594	2	127	5,723	1	[6]1
Commercial - Other	37,691	309	1,829	39,829	20	[6]101
Total Commercial	**58,369**	**676**	**2,349**	**61,394**	**28**	**141**
Private Individuals - Housing Loans	21,302	[5]355	-	21,657	322	81
Private Individuals - Other Loans	22,254	293	64	22,611	56	[6]112
Total Public - Activity in Israel	**101,925**	**1,324**	**2,413**	**105,662**	**406**	**334**
Banks in Israel	405	-	-	405	-	-
Government of Israel	502	-	-	502	-	-
Total Activity in Israel	**102,832**	**1,324**	**2,413**	**106,569**	**406**	**334**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	7,376	63	282	7,721	-	7
Commercial - Other	13,870	234	249	14,353	1	-
Total Commercial	**21,246**	**297**	**531**	**22,074**	**1**	**7**
Private Individuals	1,527	5	-	1,532	5	[6]3
Total Public - Activity Outside of Israel	**22,773**	**302**	**531**	**23,606**	**6**	**10**
Foreign banks	5,349	-	-	5,349	-	-
Foreign governments	14	-	-	14	-	-
Total Activity Outside of Israel	**28,136**	**302**	**531**	**28,969**	**6**	**10**
Total public	**124,698**	**1,626**	**2,944**	**129,268**	**412**	**344**
Total banks	**5,754**	**-**	**-**	**5,754**	**-**	**-**
Total governments	**516**	**-**	**-**	**516**	**-**	**-**
Total	**130,968**	**1,626**	**2,944**	**135,538**	**412**	**344**

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 amoumt of NIS 110 millions are classified as unimpaired problematic debts (December 31, 2015 - NIS 101 million).

(5) Including housing loans in amoumt 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 (December 31, 2015 - NIS 11 million).

(6) Reclassified due to changes in the data of the bank and a subsidiary company.

31. 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

	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	

For footnotes see next page.

31. 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)

	December 31, 2015				
	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	31	13	86	117	3,310
Construction and Real Estate - Real Estate Activity	92	16	184	276	1,545
Financial Services	122	15	5	127	322
Commercial - Other	1,160	380	669	1,829	5,346
Total Commercial	**1,405**	**424**	**944**	**2,349**	**10,523**
Private Individuals - Other Loans	18	5	46	64	449
Total Public - Activity in Israel	**1,423**	**429**	**990**	**2,413**	**10,972**
Total Activity in Israel	**1,423**	**429**	**990**	**2,413**	**10,972**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	28	1	254	282	934
Commercial - Other	156	33	93	249	379
Total Commercial	**184**	**34**	**347**	**531**	**1,313**
Private Individuals	-	-	-	-	1
Total Public - Activity Outside of Israel	**184**	**34**	**347**	**531**	**1,314**
Total Activity Outside of Israel	**184**	**34**	**347**	**531**	**1,314**
Total public	**1,607**	**463**	**1,337**	**2,944**	**12,286**
Total	**1,607**	**463**	**1,337**	**2,944**	**12,286**
Of which:					
Measured according to present value of cash flows	768	290	366	1,134	
Debts under troubled debt restructurings	1,024	203	708	1,732	

Footnotes:

(1) Recorded amount.

(2) Specific allowance for credit losses.

(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.

31. 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

	2016			2015			2014		
	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	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	174	4	2	133	2	2	261	1	1
Construction and Real Estate - Real Estate Activity	349	9	8	416	9	7	585	17	15
Financial Services	690	4	2	206	3	3	217	1	-
Commercial - Other	1,652	34	29	2,124	18	9	1,497	25	18
Total Commercial	**2,865**	**51**	**41**	**2,879**	**32**	**21**	**2,560**	**44**	**34**
Private Individuals - Other Loans	73	1	1	89	3	2	99	4	1
Total Public - Activity in Israel	**2,938**	**52**	**42**	**2,968**	**35**	**23**	**2,659**	**48**	**35**
Total Activity in Israel	**2,938**	**52**	**42**	**2,968**	**35**	**23**	**2,659**	**48**	**35**
Lending Activity Outside of Israel									
Public - Commercial									
Construction and Real Estate	206	6	4	312	4	2	563	5	2
Commercial - Other	333	16	-	268	8	-	235	5	4
Total Commercial	**539**	**22**	**4**	**580**	**12**	**2**	**798**	**10**	**6**
Private Individuals	1	-	-	5	-	-	3	-	-
Total Public - Activity Outside of Israel	**540**	**22**	**4**	**585**	**12**	**2**	**801**	**10**	**6**
Total Activity Outside of Israel	**540**	**22**	**4**	**585**	**12**	**2**	**801**	**10**	**6**
Total	**3,478**	**[3]74**	**46**	**3,553**	**[3]47**	**25**	**3,460**	**[3]58**	**41**

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 amoumt of NIS 127 millions ((31.12.2015- NIS 134 millions, 31.12.2014- NIS 171 millions), respectively.

31. 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

	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.

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 December 31, 2016, to NIS 41 million (December 31, 2015 – NIS 39 million).

31. 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)

	December 31, 2015				
	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	10	-	-	31	41
Construction and Real Estate - Real Estate Activity	99	-	-	32	131
Financial Services	112	-	-	9	121
Commercial - Other	1,004	-	2	278	1,284
Total Commercial	**1,225**	**-**	**2**	**350**	**1,577**
Private Individuals - Other Loans	21	-	-	30	51
Total Public - Activity in Israel	**1,246**	**-**	**2**	**380**	**1,628**
Total Activity in Israel	**1,246**	**-**	**2**	**380**	**1,628**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	24	-	-	12	36
Commercial - Other	10	-	-	58	68
Total Commercial	**34**	**-**	**-**	**70**	**104**
Total Public - Activity Outside of Israel	**34**	**-**	**-**	**70**	**104**
Total Activity Outside of Israel	**34**	**-**	**-**	**70**	**104**
Total	**1,280**	**-**	**2**	**450**	**1,732**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

31. 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)

	2016			2015			2014		
	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	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	99	17	17	73	10	6	82	11	8
Construction and Real Estate - Real Estate Activity	9	3	3	11	40	40	12	91	91
Financial Services	5	597	597	3	112	112	12	1	1
Commercial - Other	379	225	223	391	693	691	467	213	183
Total Commercial	**492**	**842**	**840**	**478**	**855**	**849**	**573**	**316**	**283**
Private Individuals - Other Loans	2,553	37	33	2,476	39	38	2,716	46	45
Total Public - Activity in Israel	**3,045**	**879**	**873**	**2,954**	**894**	**887**	**3,289**	**362**	**328**
Total Activity in Israel	**3,045**	**879**	**873**	**2,954**	**894**	**887**	**3,289**	**362**	**328**
Lending Activity Outside of Israel									
Public - Commercial									
Construction and Real Estate	2	1	1	-	-	-	1	293	293
Commercial - Other	6	129	129	1	29	29	5	18	18
Total Commercial	**8**	**130**	**130**	**1**	**29**	**29**	**6**	**311**	**311**
Private Individuals	-	-	-	2	(1)-	(1)-	1	(1)-	(1)-
Total Public - Activity Outside of Israel	**8**	**130**	**130**	**3**	**29**	**29**	**7**	**311**	**311**
Total Activity Outside of Israel	**8**	**130**	**130**	**3**	**29**	**29**	**7**	**311**	**311**
Total	**3,053**	**1,009**	**1,003**	**2,957**	**923**	**916**	**3,296**	**673**	**639**

Footnote:

(1) An amount lower than NIS 1 million.

31. 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)

	2016		2015		2014	
	Failure of restructured debts[1]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts[3]	Recorded amount[3]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	17	1	10	(2)-	10	(2)-
Construction and Real Estate - Real Estate Activity	1	(2)-	1	(2)-	3	9
Financial Services	2	(2)-	1	(2)-	5	(2)-
Commercial - Other	98	48	104	26	100	9
Total Commercial	**118**	**49**	**116**	**26**	**118**	**18**
Private Individuals - Other	1,362	6	1,348	8	1,597	9
Total Public - Activity in Israel	**1,480**	**55**	**1,464**	**34**	**1,715**	**27**
Total Activity in Israel	**1,480**	**55**	**1,464**	**34**	**1,715**	**27**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1	(2)-	-	-	-	-
Total Commercial	**1**	**(2)-**	**-**	**-**	**-**	**-**
Total Public - Activity Outside of Israel	**1**	**(2)-**	**-**	**-**	**-**	**-**
Total Activity Outside of Israel	**1**	**(2)-**	**-**	**-**	**-**	**-**
Total	**1,481**	**55**	**1,464**	**34**	**1,715**	**27**

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.

31. 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

(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 period, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

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

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

(B) Indication of credit quality

	December 31, 2016				December 31, 2015			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	95.2%	98.8%	98.4%	96.4%	95.4%	98.4%	98.5%	96.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	1.6%	1.2%	1.4%	1.5%	1.2%	1.6%	1.2%	1.3%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	3.2%	-	0.2%	2.1%	3.4%	-	0.3%	2.3%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.7%	0.7%	1.6%	1.5%	1.8%	0.8%	1.5%	1.6%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	32.4%	51.2%	98.9%	38.8%	34.8%	48.1%	104.2%	40.6%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

31. 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			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		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**
		December 31,2015			
First degree pledge: financing ratio	Up to 60%	13,668	277	8,613	147
	Over 60%	7,324	60	4,875	80
Second degree pledge or without pledge		816	22	368	1,525
Total		**(2)21,808**	**359**	**13,856**	**1,752**

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 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 (December 31, 2015 - NIS 236 million).

C. INFORMATION REGARDING THE PURCHASE AND SALE OF DEBTS

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

	2016					2015				
	Credit to the public					Credit to the public				
	Commercial	Housing	Other	Credit to banks and governments	Total	Commercial	Housing	Other	Credit to banks and governments	Total
	In NIS millions									
Loans acquired	1,087	-	-	107	1,194	919	-	-	204	1,123
Loans sold	847	-	-	-	847	1,109	-	-	181	1,290

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

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

D. COMPOSITION OF CREDIT TO THE PUBLIC[(1)] AND OFF-BALANCE-SHEET CREDIT RISK[(3)], BY SIZE OF CREDIT TO INDIVIDUAL BURROWERS

1. CONSOLIDATED

				December 31					
				2016			2015		
				Number of borrowers[(2)]	Credit[(1)]	Off-balance Credit risk[(3)]	Number of borrowers[(2)]	Credit[(1)(5)]	Off-balance Credit risk[(3)(5)]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,103,459	1,703	1,420	1,072,858	1,667	1,375
Over	10	Up to	20	406,472	2,285	4,333	413,206	2,253	4,377
Over	20	Up to	40	369,272	4,646	6,306	336,611	4,280	5,690
Over	40	Up to	80	225,269	7,119	5,069	192,929	6,134	4,383
Over	80	Up to	150	82,527	6,570	2,417	74,506	5,895	2,152
Over	150	Up to	300	43,793	7,408	1,691	38,497	6,542	1,482
Over	300	Up to	600	27,490	10,201	1,704	25,401	9,469	1,555
Over	600	Up to	1,200	21,977	15,592	2,770	18,592	12,929	2,446
Over	1,200	Up to	2,000	5,750	6,952	1,658	4,659	5,594	1,425
Over	2,000	Up to	(4)4,000	2,968	6,188	1,918	2,707	5,795	1,644
Over	4,000	Up to	(4)8,000	1,294	5,526	1,843	1,263	5,404	1,815
Over	8,000	Up to	(4)20,000	1,033	9,805	3,139	986	9,371	2,934
Over	20,000	Up to	(4)40,000	661	13,611	4,697	618	12,739	4,409
Over	40,000	Up to	(4)200,000	664	33,562	17,405	625	32,395	15,197
Over	200,000	Up to	(4)400,000	39	7,358	3,023	41	7,880	3,392
Over	400,000	Up to	(4)800,000	12	4,273	1,834	8	2,600	1,690
Over	800,000	Up to	(4)1,200,000	*4	*3,497	292	*4	*2,883	916
Over	1,200,000	Up to	(4)1,600,000	1	754	665	*2	*1,596	985
Over	1,600,000	Up to	(4)2,800,000	2	3,567	936	1	1,632	887
Over	2,800,000	Up to	(4)3,200,000	-	-	-	-	-	-
Over	(4)3,200,000			*1	*6,164	-	*1	*5,672	-
Total				**2,292,688**	**156,781**	**63,120**	**2,183,515**	**142,730**	**58,754**
Mortgage backed securities issued by:									
GNMA				1	6,164		1	5,672	
FNMA				1	1,044		1	1,325	
FHLMC				1	909		1	1,186	

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks quarantees, not of the Group's, as of December 31, 2016 - NIS 5,298 million, as of December 31, 2015 - NIS 5,118 million).

(4) Consolidated - by combining specific balances.

(5) Not including balances classified as assets held for sale - see notes 18A.

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

D. COMPOSITION OF CREDIT TO THE PUBLIC(1) AND OFF-BALANCE-SHEET CREDIT RISK(3), BY SIZE OF CREDIT TO INDIVIDUAL BURROWERS (CONTINUED)

2. THE BANK

				December 31					
				2016			2015		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(3)	Number of borrowers(2)	Credit(1)	Off-balance Credit risk(3)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	219,272	233	516	215,192	233	510
Over	10	Up to	20	106,977	563	1,085	107,374	592	1,060
Over	20	Up to	40	121,429	1,518	2,009	119,744	1,544	1,924
Over	40	Up to	80	101,959	3,328	2,480	98,468	3,295	2,305
Over	80	Up to	150	61,960	4,707	2,003	56,319	4,287	1,786
Over	150	Up to	300	32,998	5,444	1,392	29,241	4,839	1,217
Over	300	Up to	600	20,964	7,694	1,409	19,440	7,180	1,271
Over	600	Up to	1,200	18,073	12,683	2,440	15,072	10,368	2,101
Over	1,200	Up to	2,000	4,541	5,358	1,411	3,561	4,134	1,217
Over	2,000	Up to	4,000	2,075	4,039	1,605	1,862	3,754	1,351
Over	4,000	Up to	8,000	927	3,502	1,626	900	3,474	1,538
Over	8,000	Up to	20,000	630	5,489	2,338	613	5,322	2,315
Over	20,000	Up to	40,000	328	6,485	2,776	300	6,013	2,416
Over	40,000	Up to	200,000	337	16,858	10,415	299	15,453	8,507
Over	200,000	Up to	400,000	34	6,280	2,793	34	6,218	3,051
Over	400,000	Up to	800,000	10	4,238	1,280	6	2,117	1,284
Over	800,000	Up to	1,200,000	2	1,544	288	4	1,968	1,791
Over	1,200,000	Up to	1,600,000	2	2,070	669	1	1,499	4
Over	1,600,000	Up to	2,800,000	2	3,357	936	1	1,412	886
Total				**692,520**	**95,390**	**39,471**	**668,431**	**83,702**	**36,534**

Footnotes:

(1) The credit and off-balance credit risk presented before the impact of the provision for credit loss and collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit on the top level: NIS 2,164 million (2015: NIS 2,298 million).

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

E. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31,2016				December 31,2015			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,195	4	677	3	1,292	16	636	15
Credit guarantees	2,544	23	1,421	16	2,089	31	1,165	21
Guarantees for home purchasers	6,861	2	5,620	1	5,955	5	4,972	4
Other guarantees and obligations	6,240	55	5,451	46	5,073	31	4,415	27
Unutilized facilities for transactions in derivative instruments	954	-	860	-	944	-	846	-
Unutilized facilities credit line for credit cards	21,922	25	5,451	6	20,051	24	4,899	6
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,986	27	7,648	22	8,336	27	7,127	22
Irrevocable commitments to extend credit approved but not yet granted[3]	22,470	54	14,588	50	22,665	67	14,675	60
Commitment to issue guarantees	4,446	5	3,565	4	3,830	5	3,077	4

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 maintaning interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

32. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS

CONSOLIDATED

	December 31, 2016						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	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
Subordinated debt notes	2,052	6,356	-	90	-	-	8,498
Liabilities in respect of derivative instruments	1,608	152	1,284	145	28	353	3,570
Other liabilities	9,913	186	466	26	41	435	11,067
Liabilities held for sale	-	-	-	-	-	-	-
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.

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

CONSOLIDATED (CONTINUED)

	December 31, 2015						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	22,262	61	4,636	690	869	-	28,518
Securities	16,776	4,048	16,127	642	39	1,303	38,935
Securities borrowed or purchased under resale agreements	279	-	-	-	-	-	279
Credit to the public, net	83,196	14,854	26,538	1,966	662	-	127,216
Credit to the Government	203	195	14	103	-	-	515
Investments in affiliated companies	-	2	-	-	-	142	144
Buildings and equipment	-	-	-	-	-	2,175	2,175
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	1,779	71	961	125	45	227	3,208
Other assets	1,938	26	1,031	112	405	184	3,696
Assets held for sale	30	-	254	112	7	29	432
Total assets	**126,463**	**19,257**	**49,561**	**3,750**	**2,027**	**4,202**	**205,260**
Liabilities							
Deposits from the public	95,088	6,473	[2]46,289	7,235	2,790	-	157,875
Deposits from banks	2,213	6	1,417	228	43	-	3,907
Deposits from the Government	139	79	[2]88	-	-	-	306
Securities loaned or sold under repurchase agreements	-	-	3,833	-	-	-	3,833
Subordinated debt notes	2,384	7,122	-	64	-	-	9,570
Liabilities in respect of derivative instruments	1,988	144	878	192	44	229	3,475
Other liabilities	9,879	145	680	16	80	185	10,985
Liabilities held for sale	26	-	1,262	285	102	-	1,675
Total liabilities	**111,717**	**13,969**	**54,447**	**8,020**	**3,059**	**414**	**191,626**
Difference	14,746	5,288	(4,886)	(4,270)	(1,032)	3,788	13,634
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(11,131)	(2,047)	8,207	4,089	882	-	-
Options in the money, net (in terms of underlying asset)	232	-	(248)	14	2	-	-
Options out of the money, net (in terms of underlying asset)	(164)	-	75	110	(21)	-	-
Total	**3,683**	**3,241**	**3,148**	**(57)**	**(169)**	**3,788**	**13,634**
Options in the money, net (discounted par value)	263	-	(275)	(1)	13	-	-
Options out of the money, net (discounted par value)	(1,053)	-	848	210	(5)	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified - see Note 1 G.

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

THE BANK

	December 31, 2016						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	21,109	12	2,527	479	469	-	24,596
Securities	13,202	2,992	4,436	433	-	94	21,157
under resale agreements securities borrowed or purchased	440	-	-	-	-	-	440
Credit granted to the public, net	70,952	13,086	4,693	1,594	368	-	90,693
Credit granted to Governments	225	206	97	204	-	-	732
Investments in affiliated companies	802	122	-	-	-	7,743	8,667
Buildings and equipment	-	-	-	-	-	1,636	1,636
Debit balances of derivative financial instruments	1,496	76	1,122	69	33	344	3,140
Other assets	1,415	3	2	6	358	335	2,119
Noncurrent assets held for sale	-	-	-	-	-	25	25
Total assets	**109,641**	**16,497**	**12,877**	**2,785**	**1,228**	**10,177**	**153,205**
Liabilities							
Deposits from the public	87,917	5,761	21,210	6,253	2,212	-	123,353
Deposits from banks	945	293	352	108	8	-	1,706
Deposits from the Government	11	57	-	-	-	-	68
Subordinated capital notes	555	2,852	-	90	-	-	3,497
Credit balances of derivative financial instruments	1,605	94	1,182	144	27	349	3,401
Other liabilities	6,081	110	77	4	21	375	6,668
Total liabilities	**97,114**	**9,167**	**22,821**	**6,599**	**2,268**	**724**	**138,693**
Difference	12,527	7,330	(9,944)	(3,814)	(1,040)	9,453	14,512
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(11,556)	(3,104)	10,138	3,781	741	-	-
Options in the money, net, (in terms of base asset)	151	-	(180)	1	28	-	-
Options out of the money, net, (in terms of base asset)	(91)	-	45	33	13	-	-
Total	**1,031**	**4,226**	**59**	**1**	**(258)**	**9,453**	**14,512**
Options in the money, net, (discounted nominal value)	216	-	(223)	(43)	50	-	-
Options out of the money, net, (discounted nominal value)	(466)	-	152	288	26	-	-

Footnote:

(1) Includes those linked to foreign currency.

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

THE BANK (CONTINUED)

	December 31,2015						
	Israeli currency		Foreign currency[(1)]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	17,568	16	3,426	393	421	-	21,824
Securities	14,797	3,118	3,781	619	-	478	22,793
under resale agreements Securities borrowed or purchased	279	-	-	-	-	-	279
Credit granted to the public, net	60,501	12,583	4,880	1,762	495	-	80,221
Credit granted to Governments	204	195	-	103	-	-	502
Investments in affiliated companies	805	123	-	-	-	7,265	8,193
Buildings and equipment	-	-	-	-	-	1,574	1,574
Debit balances of derivative financial instruments	1,790	71	819	124	45	219	3,068
Other assets	1,574	3	1	113	395	84	2,170
Assets held for sale	-	-	-	-	-	21	21
Total assets	**97,518**	**16,109**	**12,907**	**3,114**	**1,356**	**9,641**	**140,645**
Liabilities							
Deposits from the public	77,564	7,208	18,812	6,687	2,508	-	112,779
Deposits from banks	902	61	440	226	44	-	1,673
Deposits from the Government	18	79	-	-	-	-	97
Subordinated capital notes	608	2,926	-	64	-	-	3,598
Credit balances of derivative financial instruments	1,979	89	767	175	43	221	3,274
Other liabilities	5,622	86	64	6	28	130	5,936
Total liabilities	**86,693**	**10,449**	**20,083**	**7,158**	**2,623**	**351**	**127,357**
Difference	10,825	5,660	(7,176)	(4,044)	(1,267)	9,290	13,288
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(9,235)	(2,915)	7,308	3,889	953	-	-
Options in the money, net, (in terms of base asset)	222	-	(238)	14	2	-	-
Options out of the money, net, (in terms of base asset)	(164)	-	75	110	(21)	-	-
Total	**1,648**	**2,745**	**(31)**	**(31)**	**(333)**	**9,290**	**13,288**
Options in the money, net, (discounted nominal value)	252	-	(264)	(1)	13	-	-
Options out of the money, net, (discounted nominal value)	(1,053)	-	848	210	(5)	-	-

Footnote:

(1) Includes those linked to foreign currency.

33. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5]

CONSOLIDATED - IN NIS MILLIONS

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2016

	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 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets[10]	51,737	13,027	21,053	18,123	13,210
Liabilities	89,602	10,174	22,188	5,030	2,623
Difference	**(37,865)**	**2,853**	**(1,135)**	**13,093**	**10,587**
Derivative instruments (excluding options)	(3,839)	(5,023)	(5,135)	707	(426)
Options (in terms of underlying assets)	(57)	60	39	5	-
Difference after effect of derivative instruments:	(41,761)	(2,110)	(6,231)	13,805	10,161
Foreign currency[8]:					
Assets[11]	9,543	4,383	7,848	7,438	5,464
Liabilities	43,162	5,599	11,538	4,125	1,237
Difference	**(33,619)**	**(1,216)**	**(3,690)**	**3,313**	**4,227**
Of which: Difference in dollar	(28,276)	(778)	(3,073)	3,124	3,925
Of which: Difference in respect of foreign activity	(16,152)	700	724	2,903	2,996
Derivative instruments (excluding options)	3,839	5,023	5,135	(707)	426
Options (in terms of underlying assets)	57	(60)	(39)	(5)	-
Difference after effect of derivative instruments:	(29,723)	3,747	1,406	2,601	4,653
Total:					
Assets[1]	61,280	17,410	28,901	25,561	18,674
Liabilities[2]	132,764	15,773	33,726	9,155	3,860
Difference	**(71,484)**	**1,637**	**(4,825)**	**16,406**	**14,814**
Derivative instruments (excluding options)					
Options (in terms of underlying assets)					
[1] Of which: Credit to the public	30,565	15,090	23,180	20,591	14,022
[2] Of which: Deposits from the public	123,370	12,720	27,740	5,757	1,590
B. Balance Sheet Amount as December 31, 2015					
Total:					
Assets[3][12]	56,244	15,786	29,581	22,339	17,762
Liabilities[4][12]	126,709	14,576	26,120	9,131	5,265
Difference	**(70,465)**	**1,210**	**3,461**	**13,208**	**12,497**
[3] Of which: Credit to the public	25,894	14,096	22,988	17,347	13,889
[4] Of which: Deposits from the public[13]	116,297	11,620	22,381	4,093	2,221

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision of accounting write-offs and allowances for credit losses.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives, which are not settled, net.

(7) Includes past-due receivables totaling NIS 406 million (2015: NIS 551 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 5,536 million (2015: NIS 4,510 million) and an amount of NIS 673 million with no due date (2015: NIS 1,317 million).

(11) Including current loan account credit facilities in the amount of NIS 200 million (2015: NIS 409 million) and an amount of NIS 209 million with no due date (2015: NIS 132 million).

(12) Reclassified – eliminating balances of non-monetary items.

(13) Reclassified - see Note 1G.

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
13,804	9,730	19,624	13,975	3,806	178,089	1,196	161,160	2.76
3,173	1,301	4,241	1,118	267	139,717	-	137,615	0.72
10,631	**8,429**	**15,383**	**12,857**	**3,539**	**38,372**	**1,196**	**23,545**	**2.04**
(1,147)	(183)	94	(82)	-	(15,034)	-	(15,161)	-
-	-	-	-	-	47	-	72	-
9,484	8,246	15,477	12,775	3,539	23,385	1,196	8,456	-
3,820	3,929	11,208	4,505	1,219	59,357	1,449	53,995	3.31
673	718	236	27	2	67,317	54	66,238	0.36
3,147	**3,211**	**10,972**	**4,478**	**1,217**	**(7,960)**	**1,395**	**(12,243)**	**2.95**
2,827	2,889	10,423	4,451	1,217	(3,271)	1,288	(7,402)	-
2,035	2,035	5,897	4,439	1,215	6,792	1,143	3,799	-
1,147	183	(94)	82	-	15,034	-	15,161	-
-	-	-	-	-	(47)	-	(72)	-
4,294	3,394	10,878	4,560	1,217	7,027	1,395	2,846	-
17,624	13,659	30,832	18,480	5,025	237,446	2,645	215,155	2.90
3,846	2,019	4,477	1,145	269	207,034	54	203,853	0.60
13,778	**11,640**	**26,355**	**17,335**	**4,756**	**30,412**	**2,591**	**11,302**	**2.30**
10,765	8,085	18,637	13,737	3,582	158,254	1,518	140,760	3.95
626	569	305	140	-	172,817	-	172,318	0.22
13,492	13,740	28,077	18,223	4,241	219,485	3,101	201,058	2.66
2,588	4,031	4,646	1,157	278	194,501	151	191,212	0.64
10,904	**9,709**	**23,431**	**17,066**	**3,963**	**24,984**	**2,950**	**9,846**	**2.02**
8,669	7,996	15,773	11,171	2,063	139,886	1,963	127,216	3.72
685	578	338	167	-	158,380	-	157,875	0.22

33. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5] (CONTINUED)

THE BANK - IN NIS MILLIONS

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2016

	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 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	44,001	8,436	14,184	12,928	10,057
Liabilities	69,623	6,657	17,371	3,671	2,310
Difference	**(25,622)**	**1,779**	**(3,187)**	**9,257**	**7,747**
Derivative instruments (excluding options)	(3,691)	(4,965)	(4,704)	711	(397)
Options (in terms of base assets)	(57)	60	39	5	-
Difference after effect of derivative instruments:	(29,370)	(3,126)	(7,852)	9,973	7,350
Foreign currency[8]:					
Assets[11]	5,379	2,286	1,501	1,019	1,036
Liabilities	21,359	3,985	5,440	780	145
Difference	**(15,980)**	**(1,699)**	**(3,939)**	**239**	**891**
Of which: Difference in dollar	(10,828)	(1,249)	(3,337)	76	757
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	3,691	4,965	4,704	(711)	397
Options (in terms of underlying assets)	57	(60)	(39)	(5)	-
Difference after effect of derivative instruments:	(12,232)	3,206	726	(477)	1,288
Total:					
Assets[1]	49,380	10,722	15,685	13,947	11,093
Liabilities[2]	90,982	10,642	22,811	4,451	2,455
Difference	**(41,602)**	**80**	**(7,126)**	**9,496**	**8,638**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
(1) Of which: Credit to the public	23,712	8,815	12,016	11,129	7,854
(2) Of which: Deposits from the public	86,554	9,120	20,881	3,271	1,389
B. Balance Sheet Amount as December 31, 2015					
Total:					
Assets[3][12]	41,947	9,886	16,031	13,421	10,183
Liabilities[4][12]	83,822	10,674	17,354	5,163	2,827
Difference	**(41,875)**	**(788)**	**(1,323)**	**8,258**	**7,356**
(3) Of which: Credit to the public	20,091	7,863	10,767	10,160	7,494
(4) Of which: Deposits from the public	79,796	9,570	15,645	3,746	1,743

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the provision of accounting write-offs and allowances for credit losses.

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives, which are not settled, net.

(7) Includes past-due receivables totaling NIS 327 million (2015: NIS 466 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 3,570 million (2015: NIS 2,677 million) and an amount of NIS 533 million with no due date (2015: NIS 1,105 million).

(11) Including current loan account credit facilities in the amount of NIS 194 million (2015: NIS 366 million) and an amount of NIS 206 million with no due date (2015: NIS 130 million).

(12) Reclassified – eliminating balances of non-monetary items.

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[(6)] No fixed maturity date[(7)]	Total	The contractual rate of return,in percentages[(9)]
10,103	7,400	16,726	12,032	3,330	139,197	1,401	126,274	2.34
2,793	1,177	3,574	810	167	108,153	-	106,391	0.49
7,310	**6,223**	**13,152**	**11,222**	**3,163**	**31,044**	**1,401**	**19,883**	**1.85**
(1,120)	(149)	94	(82)	-	(14,303)	-	(14,428)	-
-	-	-	-	-	47	-	72	-
6,190	6,074	13,246	11,140	3,163	16,788	1,401	5,527	-
1,154	1,149	4,971	54	4	18,553	230	16,754	3.53
103	147	175	24	2	32,160	2	31,578	0.36
1,051	**1,002**	**4,796**	**30**	**2**	**(13,607)**	**228**	**(14,824)**	**3.17**
765	684	4,344	9	1	(8,778)	120	(9,969)	-
-	-	-	-	-	-	-	-	-
1,120	149	(94)	82	-	14,303	-	14,428	-
-	-	-	-	-	(47)	-	(72)	-
2,171	1,151	4,702	112	2	649	228	(468)	-
11,257	8,549	21,697	12,086	3,334	157,750	1,631	143,028	2.48
2,896	1,324	3,749	834	169	140,313	2	137,969	0.46
8,361	**7,225**	**17,948**	**11,252**	**3,165**	**17,437**	**1,629**	**5,059**	**2.02**
6,604	4,815	13,910	11,270	3,106	103,231	889	90,693	3.36
1,993	520	333	41	-	124,102	-	123,353	0.40
8,541	9,237	19,640	10,134	2,005	141,025	2,165	131,004	2.37
1,777	2,614	4,149	857	181	129,418	2	127,006	0.52
6,764	**6,623**	**15,491**	**9,277**	**1,824**	**11,607**	**2,163**	**3,998**	**1.85**
5,150	4,710	11,519	8,943	1,739	88,436	1,436	80,221	3.38
902	1,824	480	59	-	113,765	-	112,779	0.46

34. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

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

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date. Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

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

C. Methods and main assumptions used in estimating the fair value of financial instruments

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Credit to the public, net - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2016, the Bank has classified some 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2015: 94%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 16 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 0.5 million (compared to NIS 26 million and NIS 1 million, respectively, as of December 31, 2015).

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

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 110 million (compared to a decrease of NIS 205 million at December 31, 2015). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 4.06 years on December 31, 2016, compared to 3.61 years, taking into consideration the forecast for early redemptions (December 31, 2015: 4.03 years and 3.52 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 55 million (compared to NIS 68 million at December 31, 2015). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2016 to 3.04 years, compared to 2.84 years, taking into consideration the forecast for early redemption (December 31, 2015: 3.25 years and 3.03 years, respectively).

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

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

D. COMPOSITION - CONSOLIDATED[3]

	December 31, 2016				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	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 12.

(3) Of which: assets and liabilities in the amount of NIS 50,627 million and NIS 87,991 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair .value on a recurrent basis and on a non-recurrent basis, see the following notes E 1 and 2.

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

D. COMPOSITION - CONSOLIDATED(3) (CONTINUED)

	December 31, 2015				
	Book	Fair value			
	value	Level 1(1)	Level 2(1)	Level 3(1)	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	28,518	11,563	-	16,962	28,525
Securities(2)	38,935	22,970	15,568	803	39,341
Securities borrowed or purchased under resale agreements	279	-	-	279	279
Credit to the public, net	127,216	1,280	2	126,352	127,634
Credit to Governments	515	-	-	574	574
Assets in respect of derivative instruments	3,208	252	2,235	721	3,208
Other financial assets	1,905	59	28	1,818	1,905
Financial assets held for sale(4)	403	-	3	400	403
Total financial assets	**(3)200,979**	**36,124**	**17,836**	**147,909**	**201,869**
Financial liabilities					
Deposits from the public	(5)157,875	18,890	(5)109,229	30,183	158,302
Deposits from banks	3,907	243	3,543	150	3,936
Deposits from the Government	(5)306	-	(5)183	137	320
Securities loaned or sold under repurchase agreements	3,833	-	-	4,118	4,118
Subordinated capital notes	9,570	8,460	43	2,328	10,831
Liabilities in respect of derivative instruments	3,475	252	2,905	318	3,475
Other financial liabilities	7,810	238	33	7,539	7,810
Financial liabilities held for sale(4)	1,675	-	1,675	-	1,675
Total financial liabilities	**(3)188,451**	**28,083**	**117,611**	**44,773**	**190,467**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	66	-	-	66	66

Footnotes:

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

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 50,999 million and NIS 85,383 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair .value on a recurrent basis and on a non-recurrent basis, see the following notes E 1 and 2.

(4) See Note 18 A.

(5) Reclassified - see Note 1 G.

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

E. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

	December 31, 2016					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	14,671	1,893	-	-	16,564	16,564
Of foreign governments	197	721	-	-	918	918
Of Israeli financial institutions	10	48	-	-	58	58
Of foreign financial institutions	-	1,154	-	-	1,154	1,154
Mortgage-backed-securities or Assets -backed-securities	-	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 or Assets -backed-securities	-	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 Exchange Contracts	12	689	418	-	1,119	1,119
Shares Contracts	353	27	-	-	380	380
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	365	2,075	843	-	3,283	3,283
Other	-	21	-	-	21	21
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	1,185	20	-	-	1,205	1,205
CLN deposits	-	-	319	-	319	319
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	160	-	160	160
Other Interest Rate Contracts	-	1,788	-	-	1,788	1,788
Foreign Exchange Contracts	12	1,122	135	-	1,269	1,269
Shares Contracts	353	-	-	-	353	353
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	365	2,910	295	-	3,570	3,570
Other	-	28	-	-	28	28
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**

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

E. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED

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

	December 31, 2015					
	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	14,147	1,194	-	-	15,341	15,341
Of foreign governments	582	330	-	-	912	912
Of Israeli financial institutions	221	48	-	-	269	269
Of foreign financial institutions	34	1,832	-	-	1,866	1,866
Mortgage-backed-securities or Assets -backed-securities	-	7,529	-	-	7,529	7,529
Of others in Israel	228	224	-	-	452	452
Of others abroad	66	1,239	-	-	1,305	1,305
Shares	493	-	-	-	493	493
Total available-for-sale securities	**15,771**	**12,396**	**-**	**-**	**28,167**	**28,167**
Trading Securities						
Of the Israeli Government	1,923	85	-	-	2,008	2,008
Of foreign governments	835	-	-	-	835	835
Of Israeli financial institutions	-	-	-	-	-	-
Of foreign financial institutions	-	1	-	-	1	1
Mortgage-backed-securities or Assets -backed-securities	-	61	-	-	61	61
Of others in Israel	21	9	-	-	30	30
Of others abroad	-	20	-	-	20	20
Shares	6	1	-	-	7	7
Total trading securities	**2,785**	**177**	**-**	**-**	**2,962**	**2,962**
Credit to the public in respect of securities loaned	1,280	2	-	-	1,282	1,282
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	168	-	168	168
Other Interest Rate Contracts	-	1,655	154	-	1,809	1,809
Foreign Exchange Contracts	23	550	399	-	972	972
Shares Contracts	229	30	-	-	259	259
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	252	2,235	721	-	3,208	3,208
Other	-	28	-	-	28	28
Assets in respect of the "Maof" market operations	59	-	-	-	59	59
Total assets	**20,147**	**14,838**	**721**	**-**	**35,706**	**35,706**
Liabilities						
Deposits from the public in respect of securities borrowed	865	25	-	-	890	890
CLN deposits	-	-	345	-	345	345
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	149	-	149	149
Other Interest Rate Contracts	-	2,125	-	-	2,125	2,125
Foreign Exchange Contracts	23	780	169	-	972	972
Shares Contracts	229	-	-	-	229	229
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	252	2,905	318	-	3,475	3,475
Other	-	33	-	-	33	33
Commitments in respect of the "Maof" market operations	59	-	-	-	59	59
Short sales of securities	179	-	-	-	179	179
Total liabilities	**1,355**	**2,963**	**663**	**-**	**4,981**	**4,981**

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

E. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED

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

	December 31, 2016					
	Level 1	Level 2	Level 3	Total fair value		Loss for the year ended December 31, 2016
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,562	1,562	-	(211)
Other	-	-	16	16	-	-

	December 31, 2015					
	Level 1	Level 2	Level 3	Total fair value		Loss for the year ended December 31, 2015
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,810	1,810		(225)
Other	-	-	15	15		-

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

F. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN ITEM 3 – CONSOLIDATED

1. FOR THE YEAR ENDED DECEMBER 31, 2016:

	Fair value as at December 31, 2015	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2016	Unrealized gains (losses) in respect of held instruments as at December 31, 2016
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	19	(1)2	-	-	(3)	-	-	18	(1)12
Other Interest Rate Contracts	154	(1)154	-	-	(50)	(13)	2	247	(1)155
Foreign Exchange Contracts	230	(1)320	-	(99)	(172)	4	(2)-	283	(1)229
Total	**403**	**476**	**-**	**(99)**	**(225)**	**(9)**	**2**	**548**	**396**
Liabilities									
CLN Deposits	(345)	(14)	(29)	-	69	-	-	(319)	(14)

2. FOR THE YEAR ENDED DECEMBER 31, 2015:

	Fair value as at December 31, 2014	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2015	Unrealized gains in respect of held instruments as at December 31, 2015
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(19)	(1)33	-	-	5	-	-	19	(1)32
Other Interest Rate Contracts	145	(1)69	-	-	(72)	(12)	24	154	(1)78
Foreign Exchange Contracts	551	(1)343	(2)-	(45)	(618)	(2)-	(1)	230	(1)213
Total	**677**	**445**	**-**	**(45)**	**(685)**	**(12)**	**23**	**403**	**323**
Liabilities									
CLN Deposits	-	(7)	(408)	-	70	-	-	(345)	(6)

Footnotes:
(1) Included in the statement of profit and loss in the item "Non-interest financing income"
(2) An amount lower than NIS 1 million

G. TRANSFERS BETWEEN HIERARCHY LEVELS OF FAIR VALUE

Immaterial transfers to or from level 3 were made in 2015 and 2016, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

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

H. 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

	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 (Liabilities) in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	18	Discounted cash flow	The interest curve in the CPI linked segments	From -0.74% to 2.57% (-0.08%)
			Counterparty credit risk (CVA)	From 0.00% to 3.09% (0.42%)
Other Interest Rate Contracts	247	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 9.92% (0.07%)
Foreign Exchange Contracts	283	Discounted cash flow	The interest curve in the CPI linked segments	From -0.73% to 2.38% (-0.41%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 18.40% (0.16%)
Liabilities				
CLN Deposits	319	Discounted cash flow	Credit risk of the underlying asset	

	Fair value as at December 31, 2015	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	1,810	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	15	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	19	Discounted cash flow	One year period inflation expectations	From -4.74% to 0.31% (-2.08%)
			Counterparty credit risk (CVA)	From 0.00% to 7.61% (0.68%)
Other Interest Rate Contracts	154	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 12.46% (0.20%)
Foreign Exchange Contracts	230	Discounted cash flow	One year period inflation expectations	From -4.59% to 0.33% (-1.37%)
		Discounted cash flow, Models for the pricing of options	Counterparty credit risk (CVA)	From 0.00% to 3.83% (0.04%)
Liabilities				
CLN Deposits	345	Discounted cash flow	Credit risk of the underlying asset	

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

H. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3 (CONTINUED)

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.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES

General – Disclosure regarding related parties until and including 2014, has been presented according to IAS 24, which determines the disclosure requirements with respect to relations with a related party as well as to transactions and outstanding balances with related parties. In addition, disclosure is required regarding the compensation paid to key management personnel.

According to the instruction in this matter, applied as from January 1, 2015, the information regarding this matter contained in a report to the public, shall be presented in respect of all interested party in accordance with the Israeli Securities Regulations, a related party according to Directive No. 312, and any other related party according to accounting principles accepted by U.S. banks. The data according to the instruction are presented starting with the 2015 annual report. It is not required to present retroactive comparative data, as the Bank is not in possession of such information. In view of that stated above, the comparability between the data for 2015 and 2016 and the data for 2014.

A. BALANCES

	December 31, 2016													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	5	15
Securities[12]	-	-	-	-	-	-	-	-	-	-	-	-	547	985
Credit to the public	-	-	-	-	2	4	4	4	131	151	259	299	223	296
Provision for credit losses	-	-	-	-	-	-	-	-	(7)	(7)	(2)	(2)	(3)	(4)
Credit to the public, net	-	-	-	-	2	4	4	4	124	144	257	297	220	292
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	157	157	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	13	15	12	25
Liabilities:														
Deposits from the public	-	-	-	-	3	4	8	9	-	-	32	78	338	439
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	800	800
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	25	25	-	-	-	-	19	19	27	76
Shares (included in equity)[13]	-	-	-	-	(15)-	(15)-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	-	-	4	4	1	1	-	-	71	71	210	217

For notes to the tables see after item D.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

A. BALANCES (CONTINUED)

	December 31, 2015													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank			
	Controlling Shareholders[2]		Other shareholders[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets:														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	2	11
Securities	-	-	-	-	-	-	-	-	-	-	-	-	[17]1,037	[17]1,421
Credit to the public	-	-	-	-	1	1	3	3	167	232	322	363	158	297
Provision for credit losses	-	-	-	-	-	-	-	-	(1)	(2)	(2)	(3)	(3)	(19)
Credit to the public, net	-	-	-	-	1	1	3	3	166	230	320	360	155	278
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	144	144	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	18	18	18	36
Liabilities:														
Deposits from the public	-	-	-	-	3	6	7	9	-	-	68	87	398	442
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	198	600
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	-	1	1
Other liabilities	-	-	-	-	[16]22	[16]22	1	1	-	-	17	17	38	66
Shares (included in equity)[13]	-	-	-	-	[15]-	[15]-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-			2	2	1	1	-	-	65	76	53	64

For notes to the tables see after item D.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

B. SUMMARIZED RESULTS OF TRANSACTIONS WITH RELATED AND INTERESTED PARTIES

	Interested parties(1)				Related parties(1)	
	Shareholders				Held by the Bank	
	Controlling Shareholders(2)	Other shareholders(3)	Officers(4)	Others(6)(7)	(8)Affiliated companies	Others(9)
	in NIS millions					
	For the year ended December 31, 2016					
Interest income, net (See item D)	-	-	-	-	3	2
credit loss expenses	-	-	-	-	17	-
Non-interest income	-	-	-	-	10	58
Operating and other expenses (See item C)	-	-	(32)	(4)	(7)	(32)
Total	**-**	**-**	**(32)**	**(4)**	**23**	**28**
	For the year ended December 31, 2015					
Interest income, net (See item D)	-	-	-	-	-	5
credit loss expenses	-	-	-	-	(15)	(2)
Non-interest income (expenses)	-	-	-	-	5	(17)(8)
Operating and other expenses (See item C)	-	-	(30)	(3)	(8)	(31)
Total	**-**	**-**	**(30)**	**(3)**	**(18)**	**(36)**

	Interested parties(1)				Related parties held by the Bank(1)
	Controlling Shareholders(2)	Other shareholders(3)	Key management personnel(5)	Others(6)	Affiliated companies(8)
	in NIS millions				
	For the year ended December 31, 2014				
Interest income, net (See item D)	-	-	-	10	(9)
credit loss expenses	-	-	-	6	5
Non-interest income	-	-	-	-	55
Operating and other expenses (See item C)	-	-	(39)	(3)	(26)
Total	**-**	**-**	**(39)**	**13**	**25**

For notes to the tables see after item D.

C. REMUNERATION AND ANY OTHER BENEFIT TO INTERESTED PARTIES (FROM THE BANKING CORPORATION AND FROM INVESTEE COMPANIES)

	For the year ended December 31					
	2016		2015		2014	
	Officers(4)		Officers(4)		Key management personnel(5)	
	Total benefit	Number of benefit Recipients	Total benefit	Number of benefit Recipients	Total benefit	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf**	26	12	24	13	34	22
Directors who are not employed by the Bank or on its behalf**	6	13	6	12	5	16
Total	**32**	**25**	**30**	**25**	**39**	**38**

*The amounts of the remuneration do not include payroll tax.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

D. INTEREST INCOME, NET, IN TRANSACTIONS OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES WITH RELATED AND INTERESTED PARTIES[18]

	Consolidated			Of which from Affiliated Companies		
	2016	2015	2014	2016	2015	2014
	in NIS millions					
A. On assets						
Credit to the public	8	7	8	3	-	(2)
Total	**8**	**7**	**8**	**3**	**-**	**(2)**
B. On liabilities						
Deposits from the public	(1)	-	(1)	-	-	(1)
Deposits from the banks	(2)	(2)	(6)	-	-	(6)
Subordinated capital notes	-	-	-	-	-	-
Total	**(3)**	**(2)**	**(7)**	**-**	**-**	**(7)**
Total Interest income, net	**5**	**5**	**1**	**3**	**-**	**(9)**

Footnotes: relating to items A,B,C & D:

(1) Interested party, related party - as defined in item 80 d of the public Reporting Directives, until December 31,2014, Interestse party -as defined in item 80 d of the public Reporting Directives which was in effect until this date and related party - as defined in International Accounting standart 24 Disclosure regarding a related party who is not an interested party.

(2) Controlling shareholder and their relatives – in accordance with item 80 d (1) of the public Reporting Directives.until December 31,2014 as defined in the Securities Law.

(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO in accordance with item 80 d (2) of the public Reporting Directive. until December 31,2014, Other shareholders or whoever is entitled to appoint one director or more of the directors or the president & CEO.

(4) Officers - in accordance with item 80 d (3) of the public Reporting Directives.

(5) Key management personnel - in accordance with item 80 d (4) of the public Reporting Directives which was in effect until December 31, 2014.

(6) in accordance with item 80 d (4) of the public Reporting Directives. until December 31, 2014, in accordance with item 80 d (5) of the public Reporting Directives which was in effect until this date.

(7) In respect of corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.

(8) Affiliated Companies- in accordance with item 80 d (7) of the public Reporting Directives. until December 31, 2014, in accordance with item 80 d (8) of the public Reporting Directives which was in effect until this date.

(9) in accordance with item 80 d (5) of the public Reporting Directives.

(10) The balance at balance sheet date.

(11) The highest balance during the year on the basis of month-end balances.

(12) Details of these item are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.

(13) Holdings of interested parties and of related parties in the equity of the banking corporation.

(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowes.

(15) Amount lower than NIS 1 million.

(16) Reclassified – Presentation of the full provision in respect of "prior notice", which had been recognized in the books of the Bank but not allocated in full in the Table.

(17) Reclassified - following classification in a subsidiary.

(18) As regards the the engagement terms see item Q below

E. (1) On January 31, 2006, control of the Bank has passed to the Bronfman-Schron Group. On December 3, 2013, following a sale of shares transaction, the Bronfman-Schron group ceased to be in control of the Bank, and the Bank became a bank with no core controlling interest.

The Appendix to the permit by the Governor of the Bank of Israel for the holding of means of control (hereinafter : "holding permit"), dated December 1, 2013, states that no transactions whatsoever may be entered into between the holders and the Bank during the transitional period (The period from December 3, 2013 to September 3, 2014), unless a specific prior approval in writing is obtained from the Supervisor of Banks. Furthermore, during the transitional period, the holders, their relatives or corporations under the control of any of them shall not receive management fees or any other consideration or benefit from the Bank or from corporations controlled by the Bank, though they may provide services, which are usually provided by the supplier thereof, at market prices, if a prior approval in writing is obtained from the Supervisor of Banks.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

(2) In April 2014 the holdings in the Bank of Mr. Schron declined to a rate of below 5%. In August 2014, Mr. Schron sold the remainder of his shares in the Bank. In September 2014, the holdings in the Bank of the Bronfman Group declined to a rate of below 5%, accordingly, Mr. Schron and the Bronfman Group ceased to be interested parties in the Bank.

(3) The holding permit states that during the cooling-off period (the year ended September 3, 2015), the individual members of the Bronfman Group and Mr. Schron would be considered as related parties having a controlling interest for the purpose of Proper Conduct of Banking Business Directive No. 312. Accordingly, in 2015 (until September 3) they were considered related parties for the purpose of reporting of related parties and interested parties and accordingly, balances and transactions with them, if at all, have been presented as part of other related parties.

F. Remuneration for the Chairman of the Board and to the President & CEO

Employment agreement with the Chairman of the Board. The Bank's Chairman of the Board took office on January 3, 2010. Following receipt of the confirmation of the Audit Committee of the Board and following a review of the recommendation of the ad-hoc Committee of the Board, the General Meeting of Shareholders approved, on November 10, 2010, the Bank’s engagement in a personal employment agreement with the Bank's Chairman of the Board. The period of the agreement was five years beginning on January 3, 2010 (hereinafter: "the first agreement period").

The Chairman of the Board of Directors is engaged in a full-time position and is not entitled to engage in any other fully paid occupation without the prior consent of the Board of Directors. In consideration for executing his duties, the Chairman is entitled to a monthly salary of NIS 150,000, in the first period of the agreement, to be updated every three months in accordance with the rise in the CPI as compared with the CPI published in January of 2010.

The Chairman was entitled to an annual award, as detailed in subsection (G) below. The Chairman was also entitled to remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 24 E (1). The agreement stated also the duties imposed on the Chairman, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty.

The Chairman is entitled to paid vacation, (the accumulation of which, during the first period of the agreement, was limited to 66 days) sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits.

Upon termination of office, the Chairman is entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension to be created by the Bank. In addition, the Chairman is entitled to early notice of six months, during which he will be entitled to remuneration and related benefits in accordance with the agreement and to an adaptation period of six months. During the adaptation period the Chairman will be entitled to a monthly salary and related benefits in accordance with the engagement agreement. In the event that the agreement period comes to its end and is not extended, the Chairman will be entitled to an early notice period as well as to an adaptation period of six months.

The Bank's annual meeting of shareholders held on October 2, 2014, the terms of office and employment of the Chairman of the Board were reapproved. The terms of service and employment preserve the fixed remuneration and termination of employment agreements of the Chairman of the Board According to the previous employment agreement terms, subject to the changes required by the new provisions applicable to the Bank and to the Bank's remuneration policy (Plus a 13th salary, similarly other employee groups at the Bank).

The terms of office and employment of the Chairman do not included a variable remuneration of the annual award or share based remuneration type, with accordance to the amendment to Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration policy of a banking corporation, states that the chairman of the board of directors shall receive a fixed remuneration only.

Following the enactment of the Remuneration Act**,** the Bank was required to make modifications to the engagement terms of the Chairman of the Board. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the Chairman of the Board, as from October 12, 2016 and until the end of the term of office of the Chairman as Chairman of the Bank's Board of Directors. Nothing in the new engagement terms may impair the rights of the Chairman that had accumulated to October 12, 2016.

The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. In accordance with the Directive of the Supervisor, the Chairman of the Board is entitled to a fixed remuneration only. The approved remuneration terms include a reduction in the scope of remuneration applying to the Chairman, in order to comply with the restrictions determined by the Remuneration Act.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

The following updates were made to the new engagement terms as against the previous engagement terms described above: salary – the Chairman of the Board of Directors continues to be entitled to a monthly salary of NIS 162,802, though no longer linked to the CPI. The Chairman of the Board is also entitled to a thirteen month's salary, including allowances in respect thereof; severance pay – at the end of his period of office, for whatever reason, the Chairman of the Board would be entitled to severance pay on the basis of his last monthly salary, or to the funds and rights accumulated to his credit in respect of allowances for severance pay, the higher of the two; annual vacation may not be accumulated, excluding the redemption of 66 vacation days, accumulated to the credit of the Chairman of the Board in accordance with the previous engagement terms up to the beginning date and which were provided for in the financial statements of the Bank; moreover, following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration in respect of the previous engagement terms, were also updated. The new engagement terms also state that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the Chairman of the Board shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

Employment agreement of the President & CEO. A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve in accordance with the remuneration policy for the Bank`s officers (see Note 23 E), which had been approved by the said meeting, the terms of office and employment of the Bank`s President & CEO, after these had been approved by the Board of Directors and the Remuneration Committee for a period of five years since the date on which the tenure of office begins ("the original agreement"). The President & CEO is employed in a fulltime position and shall not be permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

In accordance with the original agreement, in consideration for the fulfillment of her duties, the President & CEO is entitled to a monthly salary of NIS 180,000 (gross), to be updated once in every quarter in accordance with the rise in the CPI as compared with the CPI published in January 2014. In each calendar year during her employment period, the President & CEO will be entitled to an additional monthly salary (13th month salary) in respect of which she will not be entitled to social benefits.

In the award year 2014, the President & CEO was entitled to a proportionate part of the annual award and of the current award, in respect of the period in which she officiated in the Bank in this year.

The President & CEO is entitled to paid vacation days (the accumulation of which, in accordance with the original agreement, is limited to fifty days), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

In accordance with the original agreement, the President & CEO is entitled to an annual award, current award and to special awards, as detailed in item H below. The President & CEO was also entitled to a one-off recruitment award in the amount of NIS 500 thousand, which does not entitle her to social benefits in respect thereof.

In accordance with the original agreement, the total variable remuneration in respect of an award year shall not exceed 100% of the fixed remuneration for that year ("fixed remuneration" and "variable remuneration" – within the meaning of these terms in instructions of the Supervisor of Banks). To the extent that the variable remuneration to which the President & CEO would be entitled in respect of any award year exceeds the said limit, then the total variable remuneration in respect of that year shall be reduced to the permitted limit. The approved terms include exceptions from the said rule, in relation to the one-off recruitment award and to an award in respect of special contribution, if at all approved.

As part of the termination of employer/employee relations, whether initiated by the President & CEO or by the Bank , the President & CEO would be entitled to severance pay, in addition to the current contributions made to her pension arrangement funds in respect of severance compensation during the period of employment, which shall be computed as a multiplication of her last monthly salary by the number of years in office. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto and to a prior notice period of six months.

The said severance pay and one half of the said adaptation award are considered variable retirement terms, which the entitlement thereto is conditional upon terms stated in the agreement.

Following the enactment of the Remuneration Act, the Bank was required to make modifications to the previous engagement terms of the President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the President & CEO, for a period of five years as from October 12, 2016. Nothing in the new engagement terms may impair the rights of the President & CEO that had accumulated to October 12, 2016 (including the variable remuneration in respect of the year 2016). The President & CEO will continue to be entitled to an advance notice period of six months. In the event of the President & CEO’s employment being terminated after five years and not extended, the President & CEO will be entitled to payment of the advance notice cost.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. In view of the restrictions determined by the Remuneration Act, the approved remuneration terms include a reduction in the scope of remuneration applying to the President & CEO.

The annual remuneration of the President & CEO (excluding social benefits and related benefits) shall not exceed the maximum amount permitted by Section 2(b) of the Remuneration Act. The following updates were made to the new engagement terms as against the previous engagement terms described above: salary – the President & CEO continues to be entitled to a monthly salary of NIS 180,000, though no longer linked to the CPI; severance pay – at the end of her period of office, for whatever reason, the President & CEO would be entitled to severance pay on the basis of her last monthly salary, or to the funds and rights accumulated to her credit in respect of the pension arrangement, the higher of the two; a thirteen month's salary – entitlement to a thirteenth month's salary, including also allowances in respect thereof; annual vacation may not be accumulated; moreover, following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration were also updated. The new engagement terms also state that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the President & CEO shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

The new engagement terms state that the President & CEO is not entitled to an annual award. However, the Remuneration Committee and the Board of Directors may, at their discretion, grant her an annual award in an amount not exceeding three monthly salaries.

G. Awards to the Chairman of the Board and to the former President & CEO

1. **Awards in respect of 2011 and thereafter.** Beginning with the year 2011, for each calendar year or a part thereof, in which the Chairman of the Board or the former President & CEO, respectively, will be in office, the annual award will be granted in accordance with attainment of the determined indices, based upon the targets set in the Bank's work plans and in accordance with the stated principles.
2. **Amount of the annual award for 2013.** The Chairman of the Board and the former President & CEO were entitled to an annual award in respect of the year 2013, in total amounts of approx. NIS 2,160 thousand and NIS 2,888 thousand, respectively (the Board of Directors and the Remuneration Committee have reduced the award to the Chairman of the Board from an amount of NIS 2,552 thousand to NIS 2,160 thousand). Payment of the annual award to the former President & CEO was made in accordance with instructions determined in the plan regarding the termination of his employment agreement, following the termination of his employment with the Bank on March 31, 2014.

   The annual awards to the Chairman of the Board and to the former President & CEO were approved by the Remuneration Committee on March 4, 2014 and by the Board of Directors on March 13, 2014. In June 2014, the Chairman of the Board announced his waiver of the annual award for the year 2013.
3. **The annual award for 2014.** The Bank's Board of Directors has decided that no award to officers of the Bank shall be paid for the year 2014.

H. Awards to the President & CEO. As stated, In accordance with the original agreement, the President & CEO, among other things, was entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO was entitled to an annual award in respect of each award year, which was restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year was conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the President & CEO, as detailed below.

Computation of the annual award. The annual award was computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices" - Return on capital; Efficiency ratio; Commissions and other income; Core capital ratio) and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter : "the qualitative index"). The Remuneration Committee and the Board of Directors were entitled to decide that with respect to a particular award year, the award shall be based solely on the quantitative indices.

(2) **Current award.** The President & CEO was entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank`s work plan.
- The grade granted to the President & CEO is at least grade "2" of the qualitative index for the award year.

(3) **Special awards**

3.1 **Award for special profits or losses.** The Remuneration Committee and the Board of Directors are entitled to grant the President & CEO a special award, either positive or negative, in respect of special profits or losses. This award shall be computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

3.2 **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors may grant the President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

3.3 **Award in special circumstances.** The Remuneration Committee and the Board of Directors may grant the President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

(4) On February 2, 2015, the Bank's Board of Directors received the recommendation of the audit committee and approved the targets for the purpose of computing the annual award to the President & CEO for the years 2015-2016.

(5) **The annual award for 2014.** The President & CEO informed of the waiver of the award to which she was entitled in respect of the year 2014, in the amount of NIS 785 thousand.

(6) **The annual award for 2015.** The entitlement to awards did not materialize in respect of the year 2015.

(7) **The annual award for 2016.** The entitlement to annual awards did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a current award for 2016, in an amount of NIS 705 thousand (the proportionate share of the annual award of NIS 900 thousand, calculated through October 12, 2017; see item (2) above); a special circumstances award of NIS 282 thousand (the proportionate share of the annual award of NIS 360 thousand, calculated through October 12, 2017; see section 3.3 above); and a special contribution award, which can be distributed once every three years, of NIS 700 thousand, (see item 3.2 above).

The approved awards total NIS 1,687 thousand. The Remuneration Committee and the Board of Directors have approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC's expense in respect to the arrangement in lieu of criminal proceedings; and the costs in respect to the 2016 retirement plan.[Elimination of the aforesaid special profits and losses has not affected the total amount of the awards.

The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the previous employment agreement in respect to 2016.

I. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2016, amounted to NIS 4,140 million (as at December 31, 2015 – NIS 5,367 million).

35. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

J. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 4 and Note 26 C 5.

K. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 10 items a and b.

L. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, including two former officers who acted as Directors of consolidated subsidiaries, which at the relevant dates had been controlling shareholders of the Bank, see Note 26 C 8, items N and O.

M. On July 6, 2008, the Board of Directors, following approval of the Audit Committee, approved the payment of annual remuneration and remuneration for participation in meetings to external directors and to other present and future Directors of the Bank (excluding the Chairman of the Board), in an amount equal to the "maximum amount" stipulated in the Second Addendum and in the Third Addendum to the Companies Regulations (Rules for remuneration and expenses to an external director), 2000, as amended in the Companies Regulations (Amendment) (Rules for remuneration and expenses to an external director), 2008, in accordance with the Bank's grade.

N. Terms of transactions with interested and related parties

All business with interested and related parties has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

O. For details regarding a remuneration scheme for members of Management of the Bank (2011-2013), see Note 23 (d). For details regarding the remuneration policy for officers of the Bank, see Note 23 (e). For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2015-2016), see Note 23 (f).

36. CREDIT CARD ACTIVITY

A. **Acquisition of the minority interest in Diners.** On November 29, 2015, ICC and Diners, the first party, entered into an agreement with Dor-Alon Finances Ltd. ("Dor-Alon") and with Alon Blue Square Israel Ltd. ("Blue Square"), the second party, whereby ICC will acquire all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the "Sold Shares"), so that upon conclusion of the transaction ICC will hold all the rights (100%) in Diners.

The transaction was consummated on December 15, 2015. On this date, in consideration for the transfer of the shares, ICC paid a total amount of NIS 130 million, to Blue Square and Dor Alon. A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent.

B. **Arrangements between the credit card companies and between such companies and the banks**

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Antitrust Tribunal (hereinafter: "the Tribunal") for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Antitrust Commissioner ("the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Antitrust Tribunal. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement – reduction of the issuer commission rate. On December 28, 2011, the Commissioner and the Appellants submitted for approval of the Tribunal a motion requesting a status of a Court verdict for a compromise agreement between them, to which had been attached an amended cross clearing arrangement(hereinafter: "status request" and "the amended arrangement", respectively).The compromise agreement determines, among other things, as follows:

   - The Commissioner informs that in view of the exogenous changes that have occurred since the submission to the Tribunal of the complementary opinion, and following his examination of the arguments detailed in the complementary opinion, he is of the opinion that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement;

36. CREDIT CARD ACTIVITY (CONTINUED)

- The reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement:

  The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission is decreasing and will amount to an average rate not exceeding 0.7%.

2. **"IsraCard" credit cards clearing arrangement.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel. In accordance with the license, ICC would be entitled to clear transactions made at trading houses in Israel by means of IsraCard credit cards, using the cross-clearing interface, and for this purpose, engage with trading houses in Israel for the supply of clearing services, and to supply services related to the clearing of transactions made through the cards (card services). The agreement will be in force from May 15, 2012 and until May 15, 2017. In consideration for the license, ICC is committed to pay a one-off license fee plus an annual fee computed in accordance with a mechanism determined in the agreement (as a function of the clearing turnover).

   Concurrently, the parties signed a cross-clearing agreement with respect to transactions to be effected by IsraCard credit cards, according to which the said clearing will be effected using the joint interface under the terms of the agreement relating to the clearing of transactions made by the VISA and MaterCard credit cards (as they apply from time to time) (hereinafter: "the Arrangement").

   The cross-clearing agreement entered into effect upon its approval in accordance with the Antitrust Act, and shall expire on date of expiry of the license or on date of expiry of the Arrangement, whichever is earlier.

   On September 13, 2012, the Antitrust Commissioner granted an exemption, for a period of three years, in respect of the arrangement between the company and IsraCard Ltd. as well as to the arrangement between LeumiCard Ltd. and IsraCardLtd., under the terms stated in the Commissioner's decision, including:

   - IsraCard will not collect from the company and from LeumiCard any additional payment in excess of the issuer commission, a one-time license fee and an additional payment being a percentage of the turnover of clearing "IsraCard" transactions, as determined in the exemption;
   - The cross-clearing commission rates ("issuer commission") payable by the clearing agent of the IsraCard brand to the Issuer of this brand, shall not exceed the rates specified in the cross-clearing arrangement approved on March 7, 2012, in a ruling of the Antitrust Tribunal;
   - The cross-clearing of the IsraCard brand shall be subject to the terms for approval of the cross-clearing arrangement for the MasterCard and VISA brands approved by the said ruling.

   In its decision of March 9, 2014, the Antitrust Tribunal approved the decision of the Commissioner with all its terms. Accordingly, in accordance with the provisions of Section 11 of the Antitrust Act, 1988, the agreement is exempt for a period of three years from date of the decision, until March 9, 2017. On January 17, 2017 the parties signed an agreement extending the arrangement between them until May 15, 2018. On March 9, 2017, the Commissioner granted an exemption from approval of a restrictive agreement for the extension of the agreement.

3. **A joint issuance agreement between ICC and owner banks.** ICC signed on September 30, 2013 with the Bank and with the First International Bank Group, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. The issuance agreements will be valid for 5-year periods and are extendable under certain circumstances determined in the agreements.

   The grant of an option to FIBI to purchase up to 10% of ICC's share capital. Within the framework of the joint issuance agreement described above, FIBI was granted an option to purchase from ICC, by way of a share issue, up to 121,978 ordinary shares in ICC, comprising at date of the agreement, 10% of the fully diluted ordinary share capital of ICC. The amount of shares allotted may be higher in the event that prior to the exercise of the option, ICC will issue shares at a price reflecting a value lower than market value, in accordance with the formula determined in the agreement.

   The option is exercisable subject to the earlier realization by the First International Bank of most of its holdings in ICC, remaining with a holding rate of less than 10%. The option is exercisable in one lot no later than December 31, 2017, at any time after the average monthly amount of credit transactions made by FIBI customers reaches the minimum amount stated in the agreement. The number of ordinary shares to be allotted within the framework of the exercise of the option shall be computed according to a formula determined in the agreement, which is affected by the volume of operations made by use of credit cards of the First International Bank.

   In consideration for the exercise of the option, FIBI will pay an exercise price in accordance with a formula determined in the agreement, which reflects present company value and certain additional adjustments determined in the agreement.

   The option may be converted into a cash payment to FIBI, according to a formula determined in the agreement, net of the exercise price as stated. The amount to be paid for the redemption of the option shall not exceed an amount of NIS 36 million (this maximum amount is to be determined according to the rate of allotment out of the option shares at date of exercise). The manner of exercising the option (whether in cash or by way of the issue of shares) is subject to approval of the Bank's Board of Directors.

36. CREDIT CARD ACTIVITY (CONTINUED)

4. **A joint issuance agreement with Mizrahi-Tefahot Bank and the updating of its terms.** In continuation of a joint issuance agreement of November 18, 2008, between ICC and Diners, on the one part, and Mizrahi-Tefahot Bank, on the other part, (hereinafter : "the previous agreement"), the parties signed on March 2, 2014, an agreement extending and updating the previous agreement (hereinafter : "the updated agreement"). The updated agreement is in force for a period of five years, from January 1, 2014 to December 31, 2018.

   The updated agreement includes reference and updated of the provisions of the previous agreement, such as operating arrangements and the granting of services, royalties and awards payable by ICC and Diners to Mizrahi-Tefahot Bank, as well as a compensation instrument, according to which, Mizrahi-Tefahot Bank will receive a monetary compensation depending on the growth in turnover of use of credit cards under the joint issuance, as compared to the turnover in 2013.

5. **A joint issue agreement with Union Bank.** On July 1, 2010, ICC and Diners Club signed agreements with Union Bank of Israel Ltd. (hereinafter - "Union Bank"). The agreements are for a period of ten years and they replace a previous agreement between the parties, which expired on that date. Under these agreements, ICC and Diners club will issue credit cards, bank cards and combined cards to customers of Union Bank. The agreement determined operating arrangements and the granting of services by ICC and/or Diners Club for credit cards issued by them and distributed by Union Bank to its customers.

   On October 27, 2015, ICC and Diners signed on addendums to the agreements existing between them and Union Bank of Israel Ltd. Included in the said addendums was the cancellation of the option granted to Union Bank in the past. As part of the amendments and addendums, it has been agreed that Union Bank would receive from ICC and Diners compensation and an annual award, subject to business terms relating to the joint issuance of credit cards. The validity of the updated agreements has been extended to December 31, 2021, subject to the terms therein, including terms for their cancellation.

   The amendment of the agreements in accordance with the addendums, took effect upon receipt from the Antitrust Commissioner of an exemption from a restrictive agreement, as well as approvals of the Supervisor of Banks relating to ICC and Union Bank.

   The Antitrust Commissioner granted on December 30, 2015, an exemption from the duty to receive the approval of the Antitrust Tribunal to the restrictive agreement signed between ICC and Diners and Union Bank, within the framework of the Addendum to a joint issuer agreement signed between the parties. The exemption is in effect for three years.

C. **Agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards").

Under this agreement, Diners and ICC exclusively issue brand name credit cards to the public at large, in accordance with marketing targets defined by the parties. Moreover, Diners and ICC issue, not exclusively, brand name credit cards to prestigious customers fulfilling appropriate entitlement terms.

The brand name credit cards entitle holders thereof unique benefits in accordance with the type of card and the volume of transactions made by use of the card, everything in accordance with the commercial terms determined by the parties. The said benefits include, inter alia, the accumulation of frequent flyer points in respect of transactions made by use of the brand name credit cards.

In accordance with the agreement, EL-AL is entitled to consideration also based on the volume of use of the brand name credit cards. The agreement also regulates participation in advertising, marketing and sales promotion expenses as well as customer service to holders of the brand name credit cards.

The agreements are valid for a preliminary engagement period of five years, and include the possibility of extension for different additional periods, subject to termination rights, to which the parties are entitled in certain circumstances.

The customer club began operation in September 2014.

D. **Diners Club International franchise.** Diners is engaged in the operation of "Diners" credit cards. The franchise granted to it by Diners Club International is in effect until December 31, 2019.

E. **(1)** **Events regarding the clearing of international electronic trade transactions and other matters.** In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management.

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

36. CREDIT CARD ACTIVITY (CONTINUED)

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

On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering. On that date, the Supervisor of Banks informed ICC, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC. The Supervisor of Banks announced on March 9, 2017, the removal of the restriction.

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

Arrangement replacing criminal proceedings. A conditional arrangement, in terms of Item A1 of Chapter "D" of the Criminal Proceedings Act (Combined version), 1982, was signed on November 3, 2016, between the economic department of the State Attorney Office and ICC. This agreement will lead to the closure of the investigation case by an arrangement, replacing criminal proceedings, subject to the terms stated below.

Within the terms of the arrangement, ICC admitted the facts relating to two affairs involving international electronic clearing, made by ICC International (a subsidiary of ICC that was merged into ICC in December 2009), in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC refers in the arrangement, were not personally known to the Officers approving the arrangement, and came to their attention only through the letter of suspicion delivered to ICC by the State Attorney Office. Approval of the arrangement, as stated, has been given after consideration of other alternatives and bearing in mind the benefit of the company.

The arrangement required ICC to operate in accordance with binding internal procedures in writing, for a period of one year from date of signing the arrangement, including matters of supervision and control mechanism that would ensure prevention of the admitted offences being repeated. ICC declared in the arrangement that the adoption of the procedures and organizational changes detailed in the arrangements had been implemented in practice by it, even prior to the signing of the arrangement.

It was agreed by the parties that under the terms of Section 67C(a)(5) and Section 5 of the fifth Addendum to the Criminal Proceedings Act (Combined version), 1982, ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture.

Subject to the fulfillment by ICC of the terms of the arrangement, the State Attorneys Office has committed to close the case against ICC. The State Attorney Office has committed not to conduct an investigation and not to serve an indictment, including any other proceedings, either civil or administrative, against ICC and/or any other related company thereof, and/or against any present or former Officer of these companies, with the exception of two Officers who had officiated therein in the past.

The arrangement clarifies that nothing in the admission of ICC may implicate any other person, including Officers and any other employee of ICC or of a related company thereof, and that nothing in the said admission could serve as evidence in any proceeding.

An expense in the amount of NIS 85 million was recognized in the books of ICC in 2016 in respect of the said arrangement.

(3) Approach according to Section 194 of the Companies Law. On June 11, 2014, the Bank received an approach in terms of Section 194 of the Companies Act, 1999, directed at the Bank's Chairman of the Board and the Chairman of the Board of ICC, according to which, the Bank and ICC are requested to file a claim against officers and employees whose acts or neglect had led, as alleged by that factor submitting the approach, to fines being imposed in the years 2008-2009, by VISA Europe and MasterCard in respect of the operations of ICC International (subsidiary of ICC, since merged with and into ICC). The factor submitting the approach demands that as part of the claim that would be submitted, the Bank and/or ICC would motion for compensation in respect of the direct and indirect damage allegedly caused to the Bank and/or ICC and/or ICC International including the payment of fines and monetary sanction that had been imposed on ICC by the Bank of Israel in respect of violations of the Prohibition of Money Laundering Order, the legal expenses borne by these companies and the damage to the reputation of the Bank and ICC. On August 31, 2014, the Bank responded to the approach and dismissed the demand for the filing of a lawsuit, as stated. Two approaches were received at the Bank on April 26, 2015, under Section 194 of the Companies Act.

36. CREDIT CARD ACTIVITY (CONTINUED)

The one was directed at the Chairman of the Board of the Bank and at the Chairman of the Board of ICC, while the other was directed only at the Chairman of the Board of the Bank. According to these approaches, the Bank and ICC are required to submit a claim against different entities, including Officers, Directors and others at ICC and at the Bank, in the relevant period, arguing that due to their negligence and/or violation of their duties towards ICC, enabled, as alleged by the Appellants, the existence of illegal activity, in which ICC was prima facie engaged, causing direct or indirect damage to ICC and the Bank as a result thereof. The Bank and ICC refuted the demands.

(4) Motion for approval of a derivative claim. On May 7, 2015, the Bank received a claim together with a motion for approval of the claim as a derivative action (numerous), that had been filed with the Tel Aviv-Yafo District Court. The Court is requested to approve submission of a derivative action against sixteen officers and other executives officiating during the relevant period and by a subsidiary of the subsidiary "ICC International Ltd.", which on December 31, 2009, merged into ICC and was struck off ("the granddaughter company"), in respect of the alleged damage caused to ICC and the granddaughter company and further damage expected to be caused to it, as alleged, with respect to their international clearing operations in the years 2006-2009.

The Appellant claims that the respondent Officers and other responsible employees, had, among other things, violated their duties causing, as claimed by him, the alleged damage, which is assessed by him at NIS 100 million. The Appellant further argues the potential risk of forfeiture of funds to the tune of NIS billions, as part of the criminal proceedings, if instituted, and of reputation and other damages that are not being assessed, all as claimed by the Appellant.

With the consent of the Appellant, several extensions of the date for submission of a response were given. The Court approved on January 18, 2017, a procedural agreement between the parties, according to which, the Appellant will submit within sixty days of the date of the procedural agreement, an amended motion for approval of a derivative action; the Respondents will respond to the amended motion within ninety days from its delivery date to the Respondents; the Appellant will submit his response within sixty days of the delivery date of the Respondents' response.

(5) Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative claim. On the background of the stipulated arrangement in lieu of criminal proceedings signed between ICC and the Economic Division of the State Attorney Office, the ad-hoc committees formed by the Bank and ICC in the matters of the letters of demand under Section 194 of the Companies Act and the motion for approval of a derivative claim, resumed discussions in order to assess the implications of the arrangement on the motion for approval of the derivative claim.

F. Acquisition of VISA Europe. On November 2, 2015, VISA Inc. and VISA Europe Ltd. Announced entry into an agreement whereby VISA Inc. will acquire VISA Europe from the principal members who were holding its shares. The transaction is made up of a cash payment and special preferred shares, as well as a future consideration.

On June 21, 2016, after having obtained the regulatory approvals, the immediate cash consideration in the amount of Euro 71 million, was received. According to information received from VISA, an additional future cash consideration of Euro 6 million, which is expected to be received in accordance with the stated terms. In addition, ICC has received restricted preferred shares for periods of 4-12 years, which are convertible into Visa Inc. shares, under terms prescribed in the sale transaction.

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

The division mechanism has been approved by the authorized organs of the parties.

Following the consummation of the transaction a net profit of approx. NIS 178 million was recognized in the financial statements for 2016. For further details, see Note 3 above.

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

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

Based on information received from ICC, the Bank estimates that the said changes are not expected to have a material impact on the Bank's profits.

37. LEGISLATION INITIATIVES

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

38. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI")

(1) **An agreement with FIBI holdings.** On March 28, 2010, an agreement was signed between the Bank and FIBI Holdings Ltd. (hereinafter: "FIBI Holdings") regarding the Bank's holdings in FIBI ("the agreement").

In accordance with the agreement, the right of Discount Bank to recommend the appointment of a quarter of the number of Directors in FIBI expired on March 13, 2014. With the expiry of this entitlement, the Bank has lost its significant influence over FIBI (within the meaning of this term in generally accepted accounting principles). In accordance with the reporting instructions of the Supervisor of Banks, the shares were stated in the financial statements as of March 31, 2014, as available-for-sale shares, at their fair value.

Approvals of the Supervisor of Banks and the Antitrust Commissioner. A mechanism for the reduction in the holdings in FIBI has been determined with the approval of the Commissioner to the agreement.

(2) **Dividend.** The Bank's share in the dividends distributed by FIBI in 2015, which amounted to NIS 12 million, was recognized in the financial statements as non-interest financing income (in 2014 – approx. NIS 44 million).

(3) **Sale of shares during 2014.** During 2014 (June 1, September 15 and December 16), the Bank sold 10,165,223 shares of FIBI, which comprised approx. 10.1% of the share capital of FIBI. The sales were effected in off-market transactions. As a result of these sales, the Bank recognized a loss of NIS 14 million (included in non-interest financing income).

(4) **Sale of shares in February 2015.** On February 19, 2015, the Bank sold 7,054,625 shares of FIBI, which comprised approx. 7% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 49.51 per share. The total consideration amounted to NIS 349 million.

In consequence of this sale and the decrease in the Bank's rate of holdings in the shares of FIBI to below 10%, the exceptional impact of the investment in these shares on capital adequacy has been removed.

In respect of the above, a loss on impairment of a nature other than temporary (OTTI) in the amount of NIS 47 million, net, was recorded in the financial statements as of December 31, 2014.

(5) **Sale of shares in February 2016.** On February 1, 2016, the Bank sold the balance of the shares in FIBI, which comprised approx. 9.28% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 44.70 per share. Following the said sale, the loss recorded as a capital reserve has been realized in the net amount of NIS 53 million and recognized in the statement of profit and loss.

Completion of this move comprised the Bank's attainment of the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale, with the approval granted by the Antitrust Commissioner to the agreement.

(6) **Losses on impairment (2015).** In 2015 the Bank recognized losses on other than temporary impairment (OTTI), in a total amount of NIS 99 million, in respect of impairment in the value of shares in FIBI.

39. DRAFT SHELF PROSPECTUS

The Bank intends to submit to the Israeli Securities Authority a request for permission to publish 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). The draft shelf prospectus will be submitted on the basis of the financial statements as of December 31, 2016 (the present statements).

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

CORPORATE GOVERNANCE AND AUDIT

BOARD OF DIRECTORS AND MANAGEMENT

General. A list of the members of the Board of Directors and a list of the Bank's executive officers and their areas of responsibility appear on page 4 of this report. These lists are correct as at the date hereof.

REPORT ON DIRECTORS HAVING ACCOUNTING AND FINANCIAL EXPERTISE

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise. Subsequent to the dates of the said resolution of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.

At date of reporting, the number of Directors having accounting and financial expertise is thirteen (out of fourteen) and the number of Directors having accounting and financial expertise who are members of the audit committee of the Board is five (out of five).

Details of Directors having accounting and financial expertise and the factual background on the basis of which they may be considered as having such expertise, are included below under "Details regarding members of the Board of Directors".

AMENDMENT OF THE BANK'S ARTICLES – INSTRUCTIONS REGARDING THE APPOINTMENT OF DIRECTORS

A special general meeting of the Bank`s shareholders approved on June 29, 2014, the amendment of the Bank's articles with respect to appointment, acting in office and termination of office of members of the Bank's Board of Directors. The amendment states that the period of office of a Director would be three years from date of appointment, instead of an annual appointment. Concurrently, it has been determined, that the provisions of the amended regulation shall not apply to Directors officiating at the Bank immediately prior to its becoming a banking corporation having no core controlling interest. The amendment also states that notwithstanding anything stated in any rule of the Bank's articles and subject to any legislation, no more than one half of the Board members who officiated immediately subsequent to a prior general meeting of shareholders may be replaced in a general meeting of shareholders, unless the approval of the Supervisor of Banks is obtained in respect thereof. All as detailed in an immediate reports dated May 13, 2014 and June 29, 2014 (Ref No. 2014-01-062172, 2014-01-101508 and 2014-01-101550, respectively), the information contained therein in this matter is presented here by way of reference.

COMMITTEE FOR THE APPOINTMENT OF DIRECTORS IN BANKING CORPORATIONS

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The annual general meeting has been asked to elect 2 directors out of 3 candidates proposed by the Committee for Appointment of Directors in banking Corporations (2015: 4 directors out of 5 candidates). For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Directors name	Dr. Yossi Bachar, Chairman of the Board of Directors	Arie Orlev	Prof. Asher Elhayany	Ilan Biran
Date on which the term of office as Director began	December 2, 2015 (initially appointed as Director on January 1, 2010, and appointed as Chairman of the Board since January 3, 2010)	December 2, 2014	March 13, 2016	October 29, 2014 (initially appointed on October 29, 2008)
I.D.	053548905	005685433	68546076	006900997
Birth date	August 3, 1955	February 7, 1946	June 4, 1952	October 3, 1946
Address of addressing court of law papers	Tel Aviv, 23 Yehuda Halevi Street, 6513601	13, Bar-Ilan Street, Ra'anana 4370011	4, Kochvan Street, Lehavim 8533800	Tel Aviv, 40/14 Shay Agnon Street, 6936236
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairman of the Credit Committee; Chairman of the Manpower committee; Chairman of the Coordination Committee; Chairman of the Strategy Committee; Computer Committee	Chairman of the Computer Committee; Risk Management Committee; Manpower committee; Coordination Committee	Manpower committee; Corporate Governance Committee	Chairman of the remuneration committee; Audit Committee; Risk Management Committee; Strategy Committee; Computer Committee; Coordination committee
External Director as defined in the Companies Act	No	No	No	Yes
Independent Director as defined in the Companies Act	No	Yes	No	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	No	Yes	No	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Professional qualification	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No
Education	Academic education Ph.D. in Business Administration (specializing in finance) from University of California, Berkley; Master of Business Administration (specializing in finance), University of California, Berkley; Bachelor of Economics and Accounting, Hebrew University, Jerusalem	Academic education Master of Business Administration (Finance), Bar-Ilan University; Master of Physical Chemistry, the Technion; Bachelor of Chemistry, the Technion	Academic education Doctor of Medicine, Ben Gurion University; Master of Public Administration (MPA), Harvard University	Academic education Bachelors in Economics and Business Administration from Bar-Ilan University
Professional diploma	Israeli Certified Public Accountant	A programming course for academics ("MAMRAM"); command and staff course of the Israeli Air Force	Director Diploma Course; Specialist in family medicine	IDF Command and Staff College course; Command and Global Strategy Diploma of the United States Marines Corps; Diploma/strategic studies in strategy and economics from Georgetown University, Washington DC; Honorary Doctorate from the Technion (awarded in 2013)
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Chairman of the Board of Directors of Israel Discount Bank Ltd.; Director at Valise Trust Company Limited (since June 3, 2016); CEO and Chairman of the Board of Amiad Av. Ltd.(since July 2007); Chairman of the Board of Yossi Bachar entrepreneurship and investments (previously, Bachar Yossi, Certified Public Accountants) (since June 2002); Director of Visa Europe (until December 2015); Chairman of the Board of Directors of	An outside member of the rating committee of Midroog Ltd. (2005-December 1, 2014)	Director of Hadassah Medical Organization (since 2015); Member of the Board of Chimes Israel – Promoting and integrating People with Special Needs into the Community (since 2009); Senior lecturer at Ariel University (since 2011); Senior lecturer at the Peres Academic Center (since 2014); Self-employed physician, Clalit Health Services (since 2014); Self-employed Physician, Asia Health Services (since 2014); President & CEO and Director of United Sick	Chairman of the Board of Melodea Ltd. (since December 22, 2015); Chairman of the Board of Plasan Sasa Ltd. (since June 1, 2015); Director of Israel Shipyards Ltd. (since October 2013); Director of Itamar Medical Ltd. (since May 2013); Chairman of the Management Committee, Kinneret College on the Sea of Galilee (R.A.) (since 2009); Owner and Director of Ilan Biran Nihul Yizum Ltd. (since 2004); Chairman of the Board of Centrition Ltd. (July 2003-June 17, 2014);

	Israel Credit Cards Ltd. (March 2012-June 2013); Director and Deputy Chairman of the Board of Israel Discount Bank of New York (January, 2010–December 2012); Director of Discount Bancorp Inc. (January, 2010–December 2012); Chairman of the Board of Directors of Mercantile Discount Bank Ltd. ("MDB") (as Director January, 2010-February, 2012, Chairman January 25, 2010–February 2012); Member of the Executive Committee of the Jewish Agency for Israel (since June 2008); member of the IMPACT Committee of the FIDF (since November 2010); member of the Association of the Friends of the Golani Reconnaissance Battalion (since May 2010); member of the IMA Foundation (since December 2010); Chairman of the Advisory Committee of the JDC Institute for Leadeship and Governance (Elka) (since April 2015); member of the Masa Israel Association (since April 2015).		Fund 2011-2013).	Chairman of the Board of Rafael Advanced Defense Systems Ltd. (June 2007 - May 2013); Director of R.D.C Rafael Development Corporation Ltd. (2008-2013); Chairman of the Board of Controp Precision Technologies Ltd. (January 2012 - May 2013); Chairman of the Board of Sync-RX Ltd. (January 2011 - November 2012, Director November 2010 - November 2012)
Additional experience attest to accounting and financial expertise as well as professional qualifications	Director General of the Ministry of Finance (November 2003 - January 2007); Head of the Tax Authority (provisional appointment) (January 2007 - April 2007); Partner and manager of Luboshitz Kasierer Accounting Firm (formerly Arthur Andersen and later Ernst & Young) (April 1995 - October 2003)	Senior VP, Member of Management and Head of the Information and Communication Group of Mizrahi Bank (1990-2004); Chairman of the board of Machish Computer Services Ltd., the computer company of Mizrahi Bank (2000-2004); Director of Tefahot Bank (2000-2004); Member of the Audit Committee and Chairman of the Board's Computer Committee of Tefahot Bank (2000-2004); Director of Bank Clearing Center Ltd. (2000-2004); Director of Automatic Bank Services Ltd. (2000-2004); CEO and member of the Board of Machish Computer Services Ltd. (CEO – 1988-2000, Director – 1990-2000); Commander of the computer unit of the Israeli Air Force (rank of colonel) (1985-1988); Variety of management and command duties in the field of development, management and support of large computer systems of the Israeli Air Force (ranks of lieutenant to lieutenant-colonel) (1970-1985)	Director of Meir Medical Center (2007-2011)	Director in Delta Three Israel Ltd. (2004 - November 2008); Chairman of the Board of Beit Shemesh Engines Holdings (1997) Ltd. (2005-2007); Director and Chairman of the Strategic Research and Development Committee of Israel Aircraft Industries Ltd. (2005-2007); Director of Massad Bank Ltd. (2005-2007); Director and member of the Audit Committee and the Finance Committee of Netafim Ltd. (2004-2007); Director General of the Ministry of Defense (1996-1999); Director General of BEZEQ the Israeli Communication Company Ltd. (1999-2003); Chairman of the Board of DBS Satellite Services (1998) Ltd. (2004-2005)
"Family member" of another "Interested party" in the corporation	No	No		No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes		Yes

Directors name	Linda Benshoshan	Eli Eliezer Gonen	Yodfat Harel-Buchris	Miriam (Miri) Katz
Date on which the term of office as Director began	November 28, 2014	December 2, 2015 (initially appointed on November 10, 2010)	February 15, 2016	February 1, 2017
I.D.	059279224	030029177	029340288	050568070
Birth date	May 26, 1965	October 5, 1949	May 11, 1972	March 4, 1951
Address of addressing court of law papers	16, Gefen Street, Maccabim 7179901	Mevaseret-Zion, 16/2 Zamir Street 9079516	1 Nataf Street, Ramat Hasharon 4704054	Michael Neeman Blvd. 18/32, Tel Aviv 6958103
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Credit Committee; Audit Committee; Corporate Governance Committee	Chairman of the Corporate Governance Committee; Human Resources Committee; Strategy Committee; Coordination Committee	Credit Committee; Human Resources Committee; Computer Committee; Strategy Committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit	Audit Committee
External Director as defined in the Companies Act	No	No	No	No
Independent Director as defined in the Companies Act	Yes	No	No	No
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes	No	No	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No
Education	Academic education Master of Business Administration (Finance and Banking), the Hebrew University, Jerusalem; Bachelor of Economics and Sociology, the Hebrew University, Jerusalem	Academic education Master of Business Administration from the Hebrew University, Jerusalem; Bachelor of Economics and complementary studies from the Hebrew University, Jerusalem; One year of advanced studies at the University of California, Berkeley, U.S.A.	Academic education Master in Business Administration, University of Bradford; Bachelor in Social Sciences – governance, communication and administration, Bar-Ilan University.	Academic education Bachelor of Law, the Hebrew University, Jerusalem
Professional diploma			Business Administration Seminar – Mergers and Acquisitions – Capital Raising in Japan, at the Israel Export Institute; directors in practice course, the Israel Management Center; a basic mediation course, Gome Center; business and intra-organizational mediation course, Gome Center; advanced management course, Harvard University	Lawyer
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	External Director and Chairman of the Audit Committee of the Provident Fund of El Al Employees, Israel Airlines, Cooperative Society Ltd. (since May 27, 2015); Director and Chairperson of the Audit Committee of the Management Company of Administration of the Further Education Fund for Administrative and Service Employees Ltd. (since February 22, 2015); Director in the Advisory Committee of the Alto Fund (February 1, 2015 – October 31, 2016); Consultant and participating in profits in Forma	Owner and Chairman of the Board of Go Alpha Ltd. (since April 2009); Chairman of the Board of Co-Op Israel – Supermarket Chain Ltd. (as from September 2012); partner, director and joint general manager of Terra Holdings, Management and Investments in Hotels Ltd. (since September 2009); President of the Israel Hotel Association (2000 - December 2010 and since December 18,2013); Director of the Jerusalem Variety Center Association (since 2007); Member of the Nominating	Owner-partner in YP & 6 Partners Ltd. (since October 1, 2013); employers' representative at the National Labor Court (since February 12, 2014); Director in Protalix BioTherapeutics Inc. (since June 26, 2007); Director in Altech Co., Ltd. (since January 1, 2016); member of the Board of Directors of Maoz Association (since July 2013); General manager of Tamares Capital Ltd. (May 2006-September 2013);	Of Counsel, Ophir Katz Law Offices (since 2003); Director in Magnes Press (since December 17, 2015); owner, CEO and Director in Miri Katz Projects Ltd. (since January 27, 2003); General Manager IMA Foundation (September 2003 - April 2016); Director at Jerusalem Economy Ltd. December 2015 – June 2016); External Director and member of the Audit Committee at Itamar Medical Ltd. (July 2007 – June

	Fund (since November 1, 2016); Director at Taro Pharmaceutical Industries Ltd. (since January 3, 2017); Lecturer on long-term savings and the capital market being a part of the Bachelor Degree studies at the Department of Finance of the College of Management Academic Studies (since October 2014); External director; Chairperson of the investments committee, the audit committee and chairperson of the SOX committee of Rom – Further Education Fund of Local authorities' Employees (2009-November 28, 2014); President & CEO of Aluminum Construction Pro Ltd. (April 2013-July 2014); lecturer in courses and seminars on long-term savings and the capital market being a part of the Bachelor and Master Degrees studies at the Department of Finance of the College of Management Academic Studies (2009-2013); External director and chairperson of the investments committee of Agur – Further Education Fund of High School Teachers (February 2012-June 2013); external director and chairperson of the marketing committee, the audit committee and the financial reserves management committee of the Tel Aviv Stock Exchange Ltd. (2009-March 2014); Independent director and member of the Committee for the review of the financial statements of Alony Hetz Properties and Investments Ltd. (January 17, 2012-May 2013)	Committee of the Company for Location and Restitution of Holocaust Victims' Assets Ltd. (since October 21, 2013); Director of Kenes International Organization of Congresses Ltd. (July 2010- December 31, 2014); Director of the Jerusalem International Convention Center - Binyaney Haooma Ltd. (since 1998); Chairman of the Board of Ma'ale Hachamisha Hotel (February 2011 – September 2012); Chairman of the Board of the Ghetto Fighters House - Itzhak Katzenelson Holocaust and Jewish Resistance Heritage Museum (July 2008-January 2013); Director of the Hapoel Jerusalem – Management Company Ltd. (up to September 2012)	Director in Tamares Hotels Ltd. (September 2003-September 2013); Director in Tamares Telecom Ltd. (February 28, 2010- September 2013); Director in N-Trig Ltd. (2010-September 2013); Director in Siklu Communication Ltd. (November 2011-September 2013); Director in Se-cure Pharmaceuticals Ltd. (January 2011-September 2013); Director in HEI Haifa Hotel Ltd. (September 2003-September 2013); Director in West Hotel Management and Maintenance Ltd. (December 2010-September 2013); Director in Tamares Israel Investments Ltd. (January 2006-September 2013); Director in Dead Sea Pride Ltd. (January 2007-September 2013); Director in Seacom Holdings Ltd. (February 4, 2008-September 2013)	2016); External Director and member of the Audit Committee at Bank Leumi Le-Israel BM (July 2008 – July 2014); Member of the Executive Board of Technoda Association (since April 2015); Member of the Board of Trustees and Member of the Charter Committee, Public Representative at the Disciplinary Tribunal, the Appeal Tribunal of the Academic Staff and Member of the Committee for Approval of Engagement of Family Relatives by the Academic Staff of the Hebrew University, Jerusalem (since March 2004); Member of the Board of Trustees and Member of the Committee for Student Affairs at the Haifa Technion (since April 2015)
Additional experience attest to accounting and financial expertise as well as professional qualifications	Partner, President & CEO of the Hadas Arazim Group Ltd. and Chairperson of Hadas Arazim Ltd. (December 2007-January 2009); Senior VP, member of Management and head of the Customer Division at Israel Discount Bank Ltd. (March 2003-July 2007); CEO of Discount Provident Fund Management (September 1998-March 2003); Chairperson of the board of Discount Trust Ltd. (2003-July 2007); Chairperson of the board of Ilanot-Discount Mutual Funds Management Company Ltd. (2003-July 2007); Chairperson of the board of Discount Provident funds Ltd. (2005-July 2007); Director of Harel Insurance in Investments Ltd. (August, 2005-November, 2006); Israeli Consul for Economic Affairs in southwest United States (1996-1998); Senior Deputy to the Commissioner of Capital Markets, Insurance and Savings Division (1993-1996)	CEO of the Sheraton-Moriah Israel hotel chain (1999-2009); Director of Tambour Ltd. (2002 - 2007); Director of Crystal Machinery and Electrical Appliances Ltd. (2004 - 2006); Director of Yahav Bank for State Employees Ltd. (1989-1992); Director of Massad Bank Ltd. (1987-1989); Director of Granite Hacarmel Investments Ltd. (during the eighties); General Manager of Koor Tourism Ltd. (1998-1999); General Manager of Histour Altiv (1996-1997); General Manager of the Ministry of Tourism (1992-1996); Held various executive positions at the Hebrew University, Jerusalem, the last of which was Director General of the University (1975-1992)	Director in British Israel Investments Ltd. (June 2009-April 2011); Director in El Al Israel Airlines Ltd. (2009-2010); Director in Halman – Aldubi Provident and Pension Funds Ltd. (2006-2008); Director in Bio View Ltd. (2006-2005); Director in Advance Vision Technologies Ltd. (2004-2005); Director in Mapal Plastic Industries Ltd. (2003-2006); part-time consultant in the Tamares Group (2003-2006); Business Manager in the medical imaging field at Orbotech Ltd. (2004-2006); General Manager and business development consultant of Kidma Patents and Developments Ltd. (2004-2005); member of the advisory committee to the Management of KN AMEX (2002-2004)	External Director and Chairperson of the Audit Committee of the Jerusalem Bank (2003-2006); Member of the Board of the Israeli Securities Authority (1994-1997) and Chairperson of the Board of the Israeli Securities Authority (1997-2002); Member of the Accountants Council (1997-2002); member of the Advisory Committee to the Supervisor of Banks (2000-2003); member of the Licensing Committee of the Supervisor of Banks (2000-2003); Director in the Caesarea Foundation and in the Caesarea Foundation Development Corporation (2003-2009)
"Family member" of another "Interested party" in the corporation	No	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes	Yes

Directors name	Baruch Lederman	Yehuda Levi	David Levinson
Date on which the term of office as Director began	November 27, 2014	November 27, 2014	March 21, 2015 (initially appointed on March 21, 2012)
I.D.	51619757	051258325	07994361
Birth date	August 27, 1952	October 22, 1952	February 21, 1964
Address of addressing court of law papers	2, Esther Ha'malkah Street, Herzliyah 4685302	48, Kosovsky Street, Tel Aviv 6291069	Ramat Hasharon, 27 Nakhshon Street 4730155
Nationality	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairman of the Risk Management Committee; Audit Committee; Remuneration Committee; Credit Committee; Coordination Committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit	Audit Committee; Remuneration Committee; Risk Management Committee	Risk Management Committee; Credit Committee; Remuneration Committee; Corporate Governance Committee; Manpower committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit
External Director as defined in the Companies Act	Yes	Yes	No
Independent Director as defined in the Companies Act	Yes	Yes	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes	Yes	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No
Education	Academic education Master of Economics, Tel Aviv University; Bachelor of Economics, Tel Aviv University	Academic education Master of Business Administration (Finance), Baruch College N.Y.C; Bachelor of Industrial Engineering and Management, the Technion	Academic education Master of business administration from the Tel Aviv University; Bachelor of economics and statistics from the Hebrew University, Jerusalem
Professional diploma			
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Deputy President & CEO, member of Management and head of the Banking Division of Bank Leumi le-Israel B.M. (October 2007-December 2012); Chairman of the board of LeumiCard Ltd. (October 2007-December 2012)	Owner-Director of MAG Financial Consultancy Ltd. (since January 2015); Owner and CEO of Renaissance City Park Ltd. (entrepreneurial company) (2014 to date); Founder and CEO of HSBC Bank PLC Tel-Aviv (2001-2013)	External Director of Gav-Yam Ltd. (May 2006 - April 24, 2015); External Director of Excellence-Nessuah Brokerage Services Ltd. (2010 to February 2013); Director of Otzar Hachayal Bank Ltd. (2006-March 21, 2012); CEO and Owner of D.L. Nachshon Ltd. (since April 2006)
Additional experience attest to accounting and financial expertise as well as professional qualifications	President & CEO, member of the board and chairman of the board of the subsidiary companies of Bank Leumi Britain in the Isle of Jersey and in Britain (June 2004-September 2007); Senior VP, member of Management and head of the Corporate Division of Bank Leumi le-Israel B.M. (September 2000-April 2004)	VP of FIBI (1986-2000); VP of Republic National Bank of N.Y (1981-1986)	Financial and business consultant to corporations and Private Equity funds (2006-August 2011); Consultant to the "Hamashbir Latzarchan" Group (2006-October 2011); External director of Direct Investments House (Mutual Trust Funds) (May 2007 - June 2010); General Manager of FIBI Bank (UK) plc. (2002-February, 2006); General Manager of Maritime Bank of Israel Ltd. (1996-2002); General Manager of Granit Hacarmel Holdings Ltd. (1994-1996); Has fulfilled different roles at Bank Hapoalim and/or on its behalf (1974-1994)

"Family member" of another "Interested party" in the corporation	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes

Directors name	Edith Lusky	Shaul Kobrinsky	Yali Sheffi
Date on which the term of office as Director began	March 25, 2015 (initially appointed on March 25, 2009)	December 11, 2014	January 29, 2017 (initially appointed on November 10, 2010)
I.D.	50163567	051638484	50331008
Birth date	August 16, 1950	November 7, 1952	March 19, 1951
Address of addressing court of law papers	Tel Aviv, 6 Kehilat Kovna Street, 6940065	25, Pesakh Yifhar Street, Herzliyah 4641513	Hod HaSharon, 31 Anshei Bereshit Street 4526730
Nationality	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairperson of the Audit Committee; Remuneration Committee; Risk Management Committee; Strategy Committee; Coordination Committee	Credit Committee; Human Resources Committee; Strategy Committee	Audit Committee; Credit Committee; Remuneration Committee; Strategy Committee; Computer Committee; Chairman of the Ad-hoc Committee discussing the demand for the filing of a derivative suit
External Director as defined in the Companies Act	Yes	No	No
Independent Director as defined in the Companies Act	Yes	No	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes	Yes	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No
Education	Academic education Master of Economics from Tel Aviv University; Bachelor of Economics and Statistics (summa cum laude) from Tel Aviv University	Academic education Bachelor of Economics, Tel Aviv University; MA studies in Economics, Tel Aviv University	Academic education Bachelor of economics and complementary studies in statistics and mathematics (summa cum laude) from the Hebrew University, Jerusalem; Diploma in Accounting for degree holders from Tel Aviv University (outstanding seminary work); Direct PhD. Studies in mathematical economics, the Hebrew University, Jerusalem (not completed)
Professional diploma			Israeli Certified Public Accountant
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	External Director at Mivtah Shamir Holdings Ltd. (since March 28, 2016); An external Director and Chairperson of the Committee for the review of the financial statements of Israel Railways Ltd. (since November 24, 2014); Director of Cellcom Israel Ltd. (March 2011-September 21, 2014); CEO and owner of Edith L - Consulting Ltd.	Active Chairman of the board of Novolog (Pharm-Up 1966) Ltd. (since 2010); President & CEO of Novolog (Pharm-UP 1966) Ltd. (since December 2016); Active Chairman of the board of Trialog – Clinical Trials Ltd. (Since 2010); director of Shachar-Haguy Holdings (2003) Ltd. (Since 2003); Director of Shachar-Haguy Ltd. (since 1999); VP mergers and acquisitions at Alagem Capital Group (2003-2010); External director, Chairman of the Committee for the review of the financial statements and Chairman of the Audit Committee of Magal Security Systems Ltd. (2006-October 2, 2014); Director of Whitepoint Investments Israel Ltd. (2003-August 23, 2014); Director of Whitepoint Investments LLC (2003-August 23, 2014); Director of Whitepoint Partners LLC (2003-August 23, 2014);	Independent director of Extell Limited (since June 19, 2014); Director of Mysupermarket Israel (MSI) Ltd. (since 2012); CEO and Director of a private company owned by him, engaged in business consulting (Yaheli Shefi (company with unlimited liability)) (since June 2009); Owner and Director of Yaheli Properties Ltd. (since 2003); External Director of Keshet Broadcasting Ltd. (June 2013 – June 27, 2016); Consultant for Bylinks International Relations Ltd. (2010-2014)

		Chairman of the antitrust committee of the Manufacturers Association of Israel (MAI) (2005 – May 21, 2015);	
Additional experience attest to accounting and financial expertise as well as professional qualifications	Director of Netvision Ltd. (July 2011-December 2011); Senior VP and member of Management of Union Bank of Israel Ltd., in the retail, customer assets and consulting fields (July 2007-December 2008) and in the retail banking and risk management fields (February 2004-June 2007); Director of Igud Leasing Ltd. (March 2007 - December 2008); Director of Igudim Insurance Agency (1995) Ltd. (September 2005 - December 2008); Director of Igudim Ltd. (September 2005 - December 2008); Director of Livluv Insurance Agency (1993) Ltd. (February 2004 - December 2008); CEO and director of Bitan – Investments and Mortgages Ltd. (March 2001-February 2004); CEO and director of Finance and Mortgages Ltd. (March 2001-February 2004); President & CEO of Mishcan Bank, a subsidiary of Bank Hapoalim Ltd. (2001-2004); Manager of the direct banking wing at Bank Hapoalim Ltd. in which her responsibilities were: establishment and marketing the Bank's internet sites, establishment and management of "Poalim Direct" - the bank's telephone centers, responsibility for selfservice machines and automatic branches (November 1995 - March 2001); Member of the Board of Directors of American-Israeli Bank (May 1998-July 1999)	External director and member of the Committee for the review of the financial statements of Scope Metals Group Ltd. (2005-2008); CEO of Urdan Industries (Inrom at present) (1997-2002); CEO of Cargal Ltd. (1989-1997); Deputy CEO of Clal Industries Ltd. (1984-1989); chief economist at Clal Industries (1981-1984); economist at the Manufacturers Association of Israel (MAI) (1976-1980)	President & CEO of Phoenix Insurance Company Ltd. (2005-2009); President & CEO of Phoenix Holdings Ltd. (2005-2009); Member of the Barnea Committee (2000-2001); Served in several roles with Almagor & Co. CPA's :Partner (1983-1987), Managing Partner (1987-1999); Managing Partner of Delloite - Briteman Almagor & Co. CPA's (1999-2004); Member of the Accounting Principles Committee of the Institute of Certified Public Accountants in Israel (1995-1998); Member of the Accounting Standards Institute founded by the Institute of Certified Public Accountants in Israel and the Israeli Securities Authority (1998-2001)
"Family member" of another "Interested party" in the corporation	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes

DETAILS REGARDING MEMBERS OF MANAGEMENT

Member of Management	Lilach AsherTopilsky, President & CEO	Joseph Beressi	Yuval Gavish	Esther Deutsch
Date on which the term of office began	February 19, 2014	April 1, 2000	January 11, 2011	June 1, 2006
I.D.	024934861	53393260	55441315	056346299
Birth date	March 19, 1970	May 21, 1955	August 22, 1958	February 6, 1960
Office he/she holds at the corporation	The Bank`s President & CEO	Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Bank's Accounting Division	Senior Executive Vice President, Head of the Banking Division	Senior Executive Vice President, Chief Legal Adviser and Head of the Bank's Legal Advisory Division
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation	Chairperson of the Board of Discount Bancorp Inc. (since March 25, 2014); Director of Israel Discount Bank of New York (since March 25, 2014)	Director of Mercantile Discount Bank Ltd. (since July 2012); Director of Badal Computer and Management Services Ltd. (since February 2002); Director of Nidbach Real Estate and Investments Ltd. (since November 2002); Director of Discount Reinsurance International Limited, Guernsey (since March 2008).	Chairman of the Board of Israel Credit Cards Ltd. (since June 17, 2013)	Director of Israel Discount Capital Markets and Investments Ltd. (since August 2013); Director of IDB (Swiss) Bank Ltd. (in liquidation) (since March 14, 2014)
Interested party of the corporation	Yes	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education; Master of Business Administration from the Northwestern University, U.S.A; Bachelors in Economics and Management from Tel Aviv University	Academic education; Bachelor of Accounting and Economics from Tel Aviv University	Academic education; Bachelor of Humanities and Social Sciences from the Open University	Academic education; LL.B. Degree from the Hebrew University, Jerusalem
Professional diploma		Israeli Certified Public Accountant		Lawyer
Business experience in the last 5 years	Chairperson of the Board of Mercantile Discount Bank Ltd. (March 3, 2014 – July 21, 2016); Deputy CEO and Head of Retail Banking, Bank Hapoalim B.M. (2009 – October 31, 2013); Chairperson of the Board of Poalim Mortgage Insurance Agency (2005) Ltd (2011 – 31 October 2013); Chairperson of the Board of Poalim Horizons Ltd. (2011 - October 2013); Director of Isracard Ltd. (2003 - October 2013); Director of Europay (Eurocard) Israel Ltd. (2003 - October 2013)	Director of Diners Club Israel Ltd. (July 2011 – June 2015); Director of Israel Discount Capital Markets and Investments Ltd. (DCMI) (September 1999 – June 2012)	Chairman of the Board of Discount Mortgage Bank Ltd. ("DMB") (March 2011 – June 28, 2012); Chairman of the Board of Diners Club Israel (January 2012 – June 16, 2013).	Alternate Director of a Director on behalf of the Bank acting on the Board of the Tel Aviv Stock Exchange Ltd. (July 1, 2013 – June 30, 2015)

Member of Management	Uri Levin	Ran Oz	Yair Avidan	Avraham (Avi) Levi
Date on which the term of office began	May 7, 2014	January 20, 2015	July 21, 2016[5]	July 21, 2016[4]
I.D.	029508835	022832588	056131618	22649644
Birth date	August 5, 1972	December 13, 1966	December 25, 1959	November 9, 1966
Office he/she holds at the corporation	Senior Executive Vice President; head of the Bank's Planning, Strategy and Finance Division	Senior Executive Vice President; Head of the Bank's Financial Markets Division	Executive Senior Vice President; Head of the Bank's Subsidiary companies Division	Executive Senior Vice President; Chief Risk Officer and Head of the Bank's Risk Management Division
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation		Chairman of the Board of Discount Manpikim Ltd. (since January 20, 2015); Chairman of the Board of Israel Discount Bank Nominee Company Ltd. (since January 20, 2015); Chairman of the Board of Discount Capital Ltd. (Director since February 25, 2015 and Chairman of the Board since April 1, 2015) Chairman of the Board of B.L.D. Ltd. (since March 4, 2015); Director in Israel Credit Cards Ltd. (since March 15, 2017)	Chairman of the Board of Mercantile Discount Bank Ltd. (Director since January 12, 2016 and Chairman of the Board since July 21, 2016); Chairman of the Board of Discount Trust Ltd. (since July 21, 2016); Director at Discount Bancorp Inc. (since June 16, 2016) and Director at Israel Discount Bank of New York (since September 20, 2016)	Chairman of the Board of IDB (Swiss) Bank Ltd. (in liquidation) (since March 14, 2014, Director since March 2012)
Interested party of the corporation	No	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education Master of Business Administration (Finance) (summa cum laude), London Business School; Bachelor of Electrical and Electronics Engineering and Computer Science (summa cum laude), Tel Aviv University	Academic education Master of Business Administration (specializing in Finance) and Economics (majoring in Micro-Economics and Game Theory) (summa cum laude), the Hebrew University, Jerusalem; Bachelor of Economics and Accounting (summa cum laude), the Hebrew University, Jerusalem	Academic education; Master of Administration and Leadership in Education (summa cum laude), Tel Aviv University; Master of Business Administration, Tel Aviv University; Bachelor of Economics and Statistics (summa cum laude), Tel Aviv University; Graduate of Advanced Management Program (AMP) at Harvard Business School.	Academic education; Master of business administration from the Bar-Ilan University; Bachelor of economics from Tel Aviv University
Professional diploma		Israeli Certified Public Accountant		Professional courses: a course for the training of senior managers and a course for derivative products consultation (Bank Hapoalim)
Business experience in the last 5 years	CEO of ISP Group Switzerland and Israel (2010-May 2014); Owner and director of Uri Levin Management and Holdings Ltd.	Director at the Tel Aviv Stock Exchange Ltd. (January 20, 2015 – June 30, 2015); Partner in Viola Credit Fund (January 2014-December 2014); Member of Management and Deputy CEO, in charge of the Finance Division - CFO of Bank Hapoalim (2009-2013); Director in IsraCard (2009-December 2014); Director in EuroPay (2009-2014); Director of Poalim Express (2009-2014); Acting Chairman of the Board of Poalim Capital Markets (2009-2013); Acting Chairman of the Board of Poalim Capital Markets - Investment House (2009-2013); Acting Chairman of the Board of Poalim Capital Markets and Investment - Holdings (2009-2013); Director in Shur Ha (2009-2013); Chairman of the Board of Poalim Trust Services (2012-2013); Chairman of the Board of Diur B.P. (2009-2013); Director and owner of Ran Oz Investments Ltd. (since 2013)	Vice President, Chief Risk Officer and Head of the Bank's Risk Management Group (2010-2016)	Vice President and Head of the Customer Assets Division of Israel Discount Bank Ltd. (2011 – 2016); Chairman of the Board of Discount Trust Ltd. (February 2012 - July 3, 2016; Director – October 2011- July 3, 2016); Chairman of the Board of IDB Registration Company Ltd. (March 2012 – August 2013)

[4] Served as Vice President and Head of the Bank's Customer Assets Division since August 28, 2011 and until July 21, 2016.
[5] Served as Vice President, Chief Risk Officer and Head of the Bank's Risk Management Group since June 9, 2010 and until July 21, 2016.

Member of Management	Orit Alster	Yafit Gariani	Levy Halevy	Nir Abel
Date on which the term of office began	March 21, 2011	April 13, 2014	June 1, 2014	May 18, 2011
I.D.	059618587	023608763	024811770	056220106
Birth date	April 4, 1965	May 3, 1968	February 17, 1970	June 5, 1960
Office he/she holds at the corporation	Executive Vice President, Head of the Corporate Division	Executive Vice President; Head of the Human Resources and Properties Division	Executive Vice President, Head of the Bank's Technologies and Operations Division	Executive Vice President; Internal Auditor of the Bank
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation	Director of Discount Bancorp Inc. (since December 2012); Director of Israel Discount Bank of New York (since February 2013)	Chairman of the Board of Discount Leasing Ltd. (since May 31, 2016); Chairman of the board of Discount Gemel Ltd. (since May 4, 2014); Chairman of the board of Nidbach Real Estate and Investments Ltd. (since May 15, 2014); Chairman of the board of Har Levy Properties Ltd. (since May 15, 2014); Director of Badal Computer and Management Services Ltd. (since May 15, 2014)	Chairman of the board of Badal Computer and Management Services Ltd. (since August 13, 2014); Director at Israel Credit Cards Ltd. (since May 31, 2016); Director at Discount Leasing (since May 31, 2016); Director of Discount Gemel Ltd. (since June 5, 2014)	Internal Auditor of certain of the Bank's subsidiaries
Interested party of the corporation	No	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education; Master of business administration, Tel Aviv University (specializing in finance and accounting); Bachelor of law (summa cum laude), Tel Aviv University; Bachelor of economics, Tel Aviv University	Academic education Master of Business Administration (Finance), Bar Ilan University; Bachelor of Statistics and Operations Research (summa cum laude), Tel Aviv University; Bachelor of Economics (summa cum laude), Tel Aviv University	Academic education Master of Business Administration, Bar-Ilan University; Bachelor of Law, the Interdisciplinary Center in Herzliya	Academic education; Bachelor of economics and accounting from the Hebrew University, Jerusalem.
Professional diploma	Lawyer			Israeli Certified Public Accountant
Business experience in the last 5 years		Manager of the large corporations department at Israel Discount Bank Ltd. (February 2011-April 2014)	Deputy CEO, Manager of the data systems and technology department at Menora Mivtachim Ltd. (2011-2014); Owner and director of S.L. Halevy Holdings Ltd. (inactive company)	

CHANGES IN THE BOARD OF DIRECTORS

Appointment of Directors. The Bank's annual general meeting of shareholders held on November 8, 2016, it was resolved to appoint Ms. Miriam (Miri) Katz and Mr. Yali Sheffi as external directors in terms of Proper Conduct of Banking Business Directive No. 301, for a period of three years. The said directors have been chosen from among candidates suggested by the Committee for Appointment of Directors in Banking Corporations. All as detailed in immediate reports dated September 28, 2016, and November 9, 2016 (Ref. Nos. 2016-01-056790 and 2016-01-074847, respectively), the information provided in them in this matter, is included herewith by way of reference.

Mr. Sheffi began his third term of office on January 29, 2017. Ms. Katz entered office on February 1, 2017, as detailed in immediate report dated January 24, 2017 (Ref. No. 2017-01-008155).

Termination of office as Directors. Mr. Ilan Cohen ended his term of office as Director in the Bank on January 31, 2017, all as detailed in an immediate report dated February 1, 2017 (Ref. No. 2017-01-009856).

The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Cohen for his activity and contribution during his period of office at the Bank, and wish success to the new Directors appointed to office at the Bank.

The detailed information provided in all immediate reports mentioned above in this item, is included herewith by way of reference.

ORGANIZATIONAL CHANGES AND APPOINTMENTS

The Bank's Board of Directors decided on May 18, 2016, to approve the following organizational changes and appointments, which became effective on July 21, 2016:

Mr. Yair Avidan, who acted as Executive Vice President and Head of the Risk Management Group at the Bank, was appointed Senior Executive Vice President, member of Management, Head of the Subsidiary Companies Division (see "Group Management" hereunder). In addition, Mr. Avidan was appointed Chairman of the Board of Mercantile Discount Bank, replacing in this office Ms. Lilach Asher-Topilsky, President & CEO of the Bank. In addition, Mr. Avidan was appointed as Director of several additional subsidiaries. Mr. Avi Levy, who acted as Executive Vice President and Head of the Customer Assets Division, was appointed Senior Executive Vice President and Head of the Risk Management Division at the Bank, replacing in this office Mr. Yair Avidan. The Customer Asset Division was split up and its units were merged with other existing Divisions.

In addition, a new department, the digital department, was established as part of the Technologies and Operations Division. This new department leads the acceleration of actions leading to the improvement of the overall service to Bank customers, both personal and digital, through the various channels and centers.

CHANGES IN MANAGEMENT

On November 26, 2016, the Bank's Board of Directors decided to appoint Mr. Uri Levin, Senior Executive Vice President, to the office of CEO and Director of Bancorp., and to recommend to the Board of Directors of Bancorp. to appoint Mr. Levin to the office of CEO and Director of IDB New York. The appointment shall take effect on May 1, 2017.

The Bank's Board of Directors decided on January 30, 2017, to appoint Mr. Ziv Biron as member of Management with the title of Vice President, Head of the Planning, Strategy and Finance Division (CFO). Mr. Biron replaces Mr. Levin. The appointment of Mr. Biron shall take effect at a date to be specified, subject to the approval of the Supervisor of Banks.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In 2016, the Board of Directors held 38 meetings. In addition, 89 meetings of committees of the Board of Directors were held.

THE INTERNAL AUDIT IN THE GROUP IN 2016

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.

The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit).

In addition, as from May 18, 2011, Mr. Abel serves also as the Internal Auditor of ICC.

The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The Audit Committee of the Board and the Board of Directors approved in January 2012 the letter of appointment of the Internal Auditor, and in January 2016, they approved an update of the letter of appointment.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives.

The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function). Prior to the work plan being submitted for approval, it is forwarded to the Bank’s independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board’s Audit Committee and to the Bank’s President & CEO for lodging comments and elucidations. The Board of Director’s Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank’s investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank’s Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank’s Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 89.1 positions (including overheads; not including 3.3 outsourcing positions), of which, 28.6 positions in corporations that engage an independent Internal Auditor (MDB and IDB New York). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Average number of positions in 2016 engaged in internal audit at the Bank and in investee companies in Israel and abroad

	Group employees	Outsourcing employees
The Bank	53.5	1.5
Investee companies in Israel audited by the Bank's internal auditor(1)	6.0	1.0
In overseas extensions	1.0	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	18.0	0.3
Investee companies abroad where the audit is performed by an independent internal auditor(3)	10.6	0.5
Total	**89.1**	**3.3**

Notes:

(1) Of which, 5 positions in ICC.

(2) Of which, the internal auditor. Not including 1.9 positions of costumer complaints.

(3) Of which, 10.4 auditors of IDB New-York, and 0.2 positions in IDB (Swiss) Bank.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.

The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was conducted in 2014 by the accounting firm chosen by the Audit Committee, while in 2016 an internal assessment was performed by the internal audit, in accordance with the guideline contained in Proper Conduct of Banking Business Directive No. 307.

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.

A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.

The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- Report on the activities of the internal audit in the fourth quarter of 2015, submitted on January 17, 2016, and discussed by the Audit Committee on March 15, 2016;
- Annual report on the activities of the internal audit in 2015, submitted on March 9, 2016, and discussed by the Audit Committee on March 15, 2016 and by the Board of Directors on April 6, 2016;
- The report on the activities of the internal audit in the first quarter of 2016 was submitted April 13, 2016, and discussed by the Audit Committee on May 31, 2016;
- The semi-annual report on the activities of the Internal Audit in the first half of 2016 was submitted on August 16, 2016, and discussed by

the Audit Committee on September 13, 2016;

- Report on the activities of the internal audit in the third quarter of 2016, submitted on October 27, 2017, and discussed by the Audit Committee on November 22, 2016;
- Report on the activities of the internal audit in the fourth quarter of 2016, submitted on January 17, 2017 and discussed by the Audit Committee on March 14, 2017;
- The annual report regarding the activities of Internal Audit in 2016 submitted on March 15, 2017 and is yet to be discussed.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals setout for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

The Internal Auditor's Remuneration

General details			Remuneration* for services								
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Completion of the employer's provisions in respect of accrued rights as of October 12, 2016	Total salary, awards, employer's provisions and benefits	Share based payment	Total	Loans granted under regular terms
			in NIS thousands								
2016	100%	-	1,072	128	275	163	22	1,660	-	1,660	-
2015	100%	-	1,006	-	300	180	-	1,486	-	1,486	-

* The amounts of the remuneration do not include payroll tax.

(1) Including severance pay, retirement award, provident fund, further education fund, vacation pay, National Insurance contributions and loss of ability to work insurance. The data for 2015 include adjustments for provisions due to changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay) and also to an adaptation grant in an amount equal to four monthly salaries. Mr. Abel was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

AUDITOR'S REMUNERATION

Remuneration(1)(2)(3) paid to the auditors (in NIS thousand)

	Consolidated		The Bank	
	For the year ended December 31,			
	2016	2015	2016	2015
For Auditing(3):				
To the joint auditors	15,509	15,477	6,926	6,994
For Other Services:				
Audit related services(4):				
To the joint auditors	2,702	3,656	2,363	3,561
Taxation Services(5):				
To the joint auditors	3,621	2,149	1,838	1,240
Other Services:				
To the joint auditors	2,110	2,097	2,050	1,914
To other auditors	-	-	-	-
Total	**8,433**	**7,902**	**6,251**	**6,715**
Total Auditors' Remuneration	**23,942**	**23,379**	**13,177**	**13,709**

Footnotes:

(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the remuneration of the independent auditors for their audit work and for services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Act, 1999.

(2) Includes remuneration that has been paid and remuneration that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

REMUNERATION OF INTERESTED PARTIES AND SENIOR OFFICERS AND TRANSACTIONS WITH INTERESTED PARTIES

REMUNERATION OF INTERESTED PARTIES SENIOR OFFICERS

Year 2016

Details of the recipient				Remuneration* for services								
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Completion of the employer's provisions in respect of accrued rights as of October 12, 2016	Total salary, awards, employer's provisions and benefits	Share based payment	Total	Loans granted under regular terms
				in NIS thousands								
Dr. Joseph Bachar	Chairman of the Board	100%	[3]-	2,130	-	636	235	37	3,038	[4](208)	2,830	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,320	1,684	755	292	16	5,067	-	5,067	-
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,396	769	1,731	196	-	5,092	-	5,092	-
Ms. Tal Rubinstein[5]		100%	-	553	2,345	360	39	-	3,297	-	3,297	-
Ms. Lissa Baum	Executive Vice President and Head of the Corporate Division of IDB New York	100%	-	1,992	408	495	92	-	2,987	-	2,987	-
Ms. Yafit Garinani	Executive Vice President, Head of the Human Resources and Assets Division	100%	-	1,028	330	384	202	21	1,965	-	1,965	-
Mr. Ran Oz	Senior Executive Vice President, Head of Financial Markets Division	100%	-	1,153	322	272	172	23	1,942	-	1,942	-
Mr. Levy Halevy	Executive Vice President, Head of the Technologies and Operations Division	100%	-	1,094	280	324	199	26	1,923	-	1,923	-
Mr. Uri Levin	Executive Vice President, Head of the Technologies and Operations Division	100%	-	1,113	276	322	180	23	1,914	-	1,914	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(4) Clawback of expenses recorded in respect of phantom options granted to the Chairman of the Board - for details see Note 24 E (1).

(5) Ms. Rubinstein took office as CEO of Discount Underwriting and Issuing Ltd. on April 5, 2016 (date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Underwriting and Issuing).

REMUNERATION OF INTERESTED PARTIES SENIOR OFFICERS (CONTINUIED)

Year 2015

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Total salary, awards, employer's provisions and benefits	Share based payment	Total	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	[3]-	2,130	-	762	229	3,121	[4]39	3,160	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,353	-	759	287	3,399	-	3,399	-
Mr. Mauricio Pelta[5]	President and CEO of Discount Bank Latin America	100%	-	1,522	2,724	352	155	4,753	-	4,753	-
Mr. Alberto Waizman[6]	Executive Vice President and Chief Financial Officer of Discount Bank Latin America	100%	-	1,438	1,682	335	156	3,611	-	3,611	-
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,387	636	175	89	3,287	-	3,287	-
Mr. Ran Oz[7]	Senior Executive Vice President, Head of Financial Markets Division	100%	-	1,123	-	[8][9]1,232	152	2,507	-	2,507	-
Mr. Yair Avidan	Executive Vice President, Chief Risk Manager and Head of the Risk Management Group	100%	-	1,141	-	426	179	1,746	-	1,746	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,153	-	365	179	1,697	-	1,697	-
Ms. Orit Alster	Executive Vice President, Head of the Corporate Division	100%	-	1,105	-	417	157	1,679	-	1,679	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.
(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.
(3) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.
(4) Expenses recorded in respect of phantom options granted to the Chairman of the Board - for details see Note 24 E (1).
(5) Mr. Pelta terminated his office as President and CEO of Discount Bank Latin America on October 31, 2015.
(6) Mr. Waizman terminated his office as Chief Financial Officer of Discount Bank Latin America on October 31, 2015.
(7) Mr.Oz started his office as the Head of Financial Markets Division on January 20, 2015.
(8) Including a provision in respect of adaptation award and prior notice, most of the effect of which is in the first year of employment.
(9) Presentation of the full provision in respect of "prior notice", which had been recognized in the books of the Bank but not allocated in full in the Table.

Dr. Yossi Bachar - serves as Chairman of the Board of Directors since January 3, 2010. For details regarding the terms of engagement of Dr. Bachar, see Note 35 F and G to the financial statements. For details regarding the phantom option plan granted to Dr. Bachar, see Note 24 D 1 to the financial statements.

Ms. Lilach Asher-Topilsky, acts as President & CEO of the Bank from February 19, 2014. For details regarding the terms of engagement of Ms. Asher-Topilsky, see Note 35 F and h to the financial statements. For details regarding the bonuses paid to Ms. Asher-Topilsky, see Note 35 F to the financial statements.

Mr. Ehud Arnon, President & CEO of IDB New York, is employed by the subsidiary under a personal agreement. Mr. Arnon's monthly salary was reviewed by the IDB New York's Remuneration Committee of the Board of Directors every year. Mr. Arnon was entitled to social benefits (Social Security contributions and entitlement to pension within the framework of such plans in effect at the subsidiary), as well as to life insurance, medical care and loss of work ability insurance. IDB New York provided Mr. Arnon with an appropriate motor vehicle and was also entitled to an annual home leave in Israel.

The engagement period had no specified termination date, unless any of the parties informs the other of his wish to terminate the engagement by a prior notice of four months. At a meeting of the Board of Directors of IDB New York, held on December 13, 2016, Mr. Arnon informed of his decision to resign from his position. Mr. Arnon effective handover date to the new President and CEO will be May 1, 2017 and he will continued to be employed by IDB New York until June 30, 2017, to assist in the transition. Upon termination of his employment, Mr. Arnon is entitled to a payment equal to six to eight monthly salaries. Accordingly, upon his retirement, Mr. Arnon will be entitled to severance pay of US$400 thousand.

Ms. Lissa Baum, Executive Vice President and Head of the Corporate Division of IDB New York, is employed by the subsidiary as an "employee at will." Ms. Baum's salary and remuneration are reviewed and approved annually by IDB New York's Remuneration Committee of the Board of Directors. Ms. Baum is entitled to health insurance, life assurance, loss of ability to work insurance, retirement benefits and various tax payments.

Ms. Tal Rubinstein serves as CEO of Discount Underwriting and Issuing Ltd. ("Discount Underwriting") since April 5, 2016, the date on which the merger of Clal Finance Underwriting Ltd. ("Clal Underwriting") with and into Discount Underwriting was consummated. Ms. Rubinstein's terms of service with Discount Underwriting in 2016 were in accordance with the terms of engagement that had existed between her and Clal Underwriting on the merger date, this being within the framework of the transitional provisions of Proper Conduct of Banking Business Directive No. 301A. In accordance with the aforementioned terms of engagement, the period of her service is without a defined termination date, unless either party notifies the other of its desire to terminate the engagement, giving three' months advance notice. Upon termination of her service, Ms. Rubinstein is entitled to a paid adaptation period of six or nine months, depending on the circumstances of the case. The non-competition period defined in terms of engagement is for the period of adaptation, as aforesaid. For 2016, Ms. Rubinstein is entitled to a bonus based on the operating results of Discount Underwriting.

Ms. Yafit Gariani employed by the Bank as Executive Vice President, Head of the Human Resources and Assets Division. Ms. Gariani is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Ms. Gariani is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. Her salary is linked to the CPI, and in the event of the CPI falling, her salary will not change until such time that the rise in the CPI offsets the rate of the fall. Ms. Gariani is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Ms. Gariani is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries. Ms. Gariani was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

Mr. Ran Oz employed by the Bank as Senior Executive Vice President, Head of the Financial Markets Division. Mr. Oz is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Oz is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Oz is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Oz is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries. Mr. Oz was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

Mr. Levy Halevy employed by the Bank as Senior Executive Vice President, Head of the Technologies and Operations Division. Mr. Levy is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Levy is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Levy is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Levy is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries. Mr. Levy was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

Mr. Uri Levin employed by the Bank as Senior Executive Vice President, Head of the Planning, Strategy and Finance Division. Mr. Levy is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Levin is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Levin is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Levin is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries. Mr. Levin was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

For details regarding officers included in the Table for 2015, but not included in the Table for 2016, see the 2015 annual report (pp. 389-391).

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000. The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. The cost of remuneration in respect of all the Directors, excluding the Chairman of the Board, amounted in 2016, to NIS 6,032 thousand (2015: NIS 5,802 thousand).

Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see "Remuneration policy" under "Human resources" below, and Note 23 E to the financial statements. For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

For details regarding the Remuneration of Officers of Financial Corporations Act, 2016, see "Legislation and Supervision" below.

TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

For details, see Note 35 to the financial statements.

CORPORATE GOVERNANCE CODE FOR THE DISCOUNT GROUP

The corporate governance code approved by the Bank's Board of Directors on October 28, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel II guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. In September of 2014, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.

Within the framework of the implementation of the corporate governance program, the Bank's Board of Directors approved in January 2012 a work procedure vis-à-vis the subsidiary companies, which is designed to regulate the interfaces between the Bank and its subsidiaries, with a view of preparing an infrastructure for management on a group level, and determine a work format for the supervision and control over the activities of subsidiary companies by the parent company (see below "Group Management"). In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank, which regulates the process of identification and approval of transactions between the Bank and/or subsidiary companies controlled by the Bank and interested parties in the Bank, which require special approvals and reporting.

CORPORATE GOVERNANCE QUESTIONNAIRE

The Securities Authority published on January 14, 2016, an updated version of the questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even now. In 2017 the Bank decided to submit a corporate governance questionnaire voluntarily. The Bank's corporate governance questionnaire 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.

GROUP MANAGEMENT

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group. The Directive includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company.

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies, which updates and replaces the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company. The principal companies in the Group have completed the adoption of the policy, with required changes in respect of their nature and scope of operations.

The establishment of a Subsidiary Companies Division. On July 21, 2016, Mr. Yair Avidan, Senior Vice President, was appointed to head the Subsidiary Companies Division, which was established on that date. The Division is designed to comprise a central factor in the leading and for the promotion of comprehensive management and utilizing synergies to the utmost, with the assistance of the professional factors with respect to strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above.

For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" above.

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 2016 - Discount Employees for the Community, in the framework of which, volunteer Bank employees contribute their time and compassion. The volunteer activity is varied and provides assistance and support to a wide range of components of the population in Israel: children and youth, students, servicemen, disadvantaged sectors, elderly, handicapped, infirm and such like.

In addition to the activities of "Lema'an" activities were also conducted in 2016 in the culture and arts field, providing sponsorship and donations.

In 2016, the Bank continued the trend of supporting children and youth in various states of distress.

MONETARY SCOPE OF ACTIVITY

Scope of expenditure of the Discount Group in respect of activities for the community

	In the year	
	2016	2015
	In NIS thousands	
Direct expense including the "Lema'an" project activities	7,667	6,804
Sponsorships[1]	186	267
Direct current cost of operating the Hezelilienblum Museum[1]	5,501	5,531
Indirect expenses - payroll[2]	3,262	3,398
Miscellaneous expenses[3]	394	332
Total[4]	**17,010**	**16,332**

Footnotes:

(1) A small part of the expense regarding sponsorships has been taken into account – only sponsorships for social associations.

(2) Guidance team payroll and building maintenance.

(3) Staff of the social responsibility unit and certain other factors who were directly engaged in social responsibility matters as part of their regular working hours.

(4) Mostly expenses relating to the preparation of various social and environmental responsibility reports, and participation of the Banks' Management in financing the travel to Poland.

(5) The data does not include the cost of the financial education project.

The "Lema'an" Project – Discount employees for the community. The varied activity continued in 2016, while focusing on voluntary activities in the framework of various associations acting in aid of youth at risk and in distress and various associations. During 2016, branches and new units joined the Bank's volunteer circle.

"Sprint for the future" – Discount Bank's flag ship project. In 2005 Israel Discount Bank joined forces with "Sprint for the Future" Association adopting the program focused on school age children from peripheral regions with difficulties in their studies. The program's objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The name of the program is "Sprint Discount". The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank's management are members of the executive board of the Association, and employees of the Bank have started voluntary activity in the framework of the Association's programs, among other things, in the form of the adoption by nearby Bank branches and Banks units of schools participating in the project.

"Herzelilinblum" - Banking and Tel Aviv Nostalgia Museum. The Herzelilinblum Museum of Banking and Tel Aviv Nostalgia. The museum provides the possibility of a close study of the history and economics of Israel since the beginning of the last century. The Museum is located in a one hundred and five year old preserved building, one of the first houses of Ahuzat Bait.

CORPORATE RESPONSIBILITY REPORT – SOCIAL RESPONSIBILITY REPORT NO. 5

Social Responsibility Report No. 5, for 2015, is available for perusal on the Bank's website.

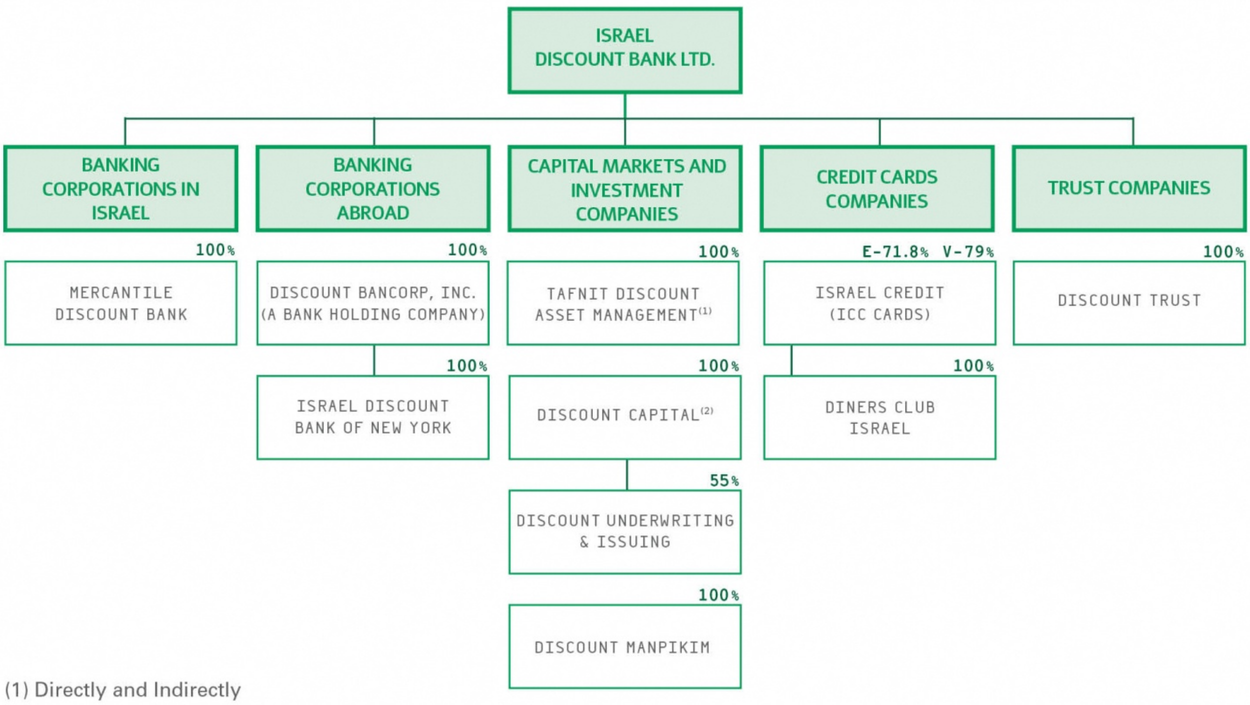
The report was drawn up in accordance with the GRI guidelines (Global Reporting Initiative), a non-governmental organization that cooperates with the United Nations and organizations worldwide in order to develop and assimilate global social reporting measures within organizations throughout the world. The report has been prepared in accordance with the GRI G4 guidelines. The fifth report enlarged the scope of disclosure in order to reflect the good work done in the field of social responsibility by the principle subsidiaries in Israel: MDB and ICC. The Bank's Corporate Responsibility Report has undergone an assurance examination by an outside, objective body - Corporate Responsibility and Sustainability Group of BDO Ziv Haft - which determined that the Bank meets the GRI requirements for the In Accordance - Comprehensive reporting.

"MAALA" RATING FOR 2016

In June 2016, "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 six central areas of corporate responsibility: environmental protection, business ethics, human rights and work environment, involvement with the community, corporate governance and social environmental reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

DISCOUNT GROUP STRUCTURE



(1) Directly and Indirectly
(2) Formerly: Israel Discount Capital Markets & Investments

CONTROL OF THE BANK – BANK HAVING NO CORE CONTROLLING INTEREST

Until December 3, 2013, the Bronfman-Schron Group was a controlling shareholder of the Bank. On December 3, 2013, following a sale of shares transaction, the Bronfman-Schron group ceased to be in control of the Bank, and the Bank became a bank with no core controlling interest.

The Banking Act (Legislation amendments). On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. In accordance with these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions. (For details regarding the amendment of the Bank's articles, see above "Amendment of the Bank's Articles - Instructions regarding the appointment of directors" in "Board of Directors and Management").

Following the Bank becoming a bank having no core controlling interest, and in accordance with the amendment to Proper Conduct of Banking Business Directive of May 2014, the Supervisor of Banks instructed the Bank to gradually increase the number of Directors up to fifteen Directors following the General Meeting of Shareholders for 2016. In a letter dated April 10, 2016, the Supervisor of Banks approved the Bank an increase in 2016 to 14 Directors only.

A draft amendment of Proper Conduct of Banking Business Directive No. 301, published in February 2017 proposes to reduce the maximum number of Directors of a banking corporation to 10 instead of 15. For additional details, see "Legislation and supervision" below. Following the publication of the draft the Supervisor of Banks has instructed the Bank to reduce the number of directors at the General Meeting of Shareholders to be convened in 2017 to 12 Directors.

FIXED ASSETS AND INSTALLATIONS

BUILDINGS AND EQUIPMENT

At the end of 2016, the investment in buildings and equipment amounted to NIS 2,295 million, compared with NIS 2,175 million at the end of 2015, a decrease of 5.5%.

General data. Most of the premises on which the Bank's business is conducted in Israel are owned directly by the Bank or by its auxiliary corporations. The total office space at the Bank’s disposal at December 31, 2016, was approx. 157.8 thousand square meters, compared with approx. 159.6 thousand square meters at the end of 2015. Of this area, approx. 107.6 thousand square meters were freehold property and approx. 50.2 thousand square meters leasehold property (2015: approx. 109.1 thousand square meters were freehold property and approx. 50.5 thousand square meters leasehold property). At the end of 2016, approx. 68 thousand square meters served the Bank’s branches and the remainder served the head office. In 2015, approx. 71.3 thousand square meters served the Bank’s branches.

For details as to the Bank’s investments in buildings and equipment, see Note 16 to the financial statements.

Establishment of the Discount Campus. An agreement was signed on June 27, 2016, with the Municipality of Rishon Le'Tzion for the purchase of 21 Acres in the "Thousand Site" in Rishon Le-Tzion, in consideration for NIS 105 million (excluding VAT and taxes). The Group plans to construct on the site a campus to which will be moved different units of Discount Bank, MDB and ICC, including the computer installations. Construction of the project and the transfer of the various units shall be made in stages. For additional details, see Note 26 C 19.

The group promoted during the year processes for the study and realization of the layout for the foundation of the campus. The move for the establishment of the Campus is expected to lead to the upgrading of different infrastructures, to savings in the scope of current expenditure and to the improvement in the work environment.

The above information is considered forward-looking information, as defined in the Securities Act, 1968, based on preliminary planning by the Discount Group and on information presently at hand. It is emphasized that at this stage, there is no certainty as to the dates for construction of the campus, progress of construction and construction and transfer costs.

Focus points for 2015-2017. Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank and the Group, among other things, in view of the reduction of the labor force. An extensive project was put into operation in the last quarter of 2014, which continued during 2015-2016, within the framework of which, activities are being performed, intended to ensure the efficient and effective utilization of the real estate assets. The lines of action being examined are the reduction in the number of branches, reduction in the floor area of branches, merger of branches, improvement in terms of rental agreements or the exchange of rented locations, etc.

Since the start of the project and until February 2017, 43 assignments were put into action. The cost invested therein amounts to NIS 22.9 million and the completion of which would lead to annualized savings of NIS 37 million (in certain of the projects, the space has not yet been returned to the owners, therefore the realization of a certain part of the savings is delayed).

Since approval of the strategic plan, the Bank closed down 7 "Discount your way" branches (one of them in 2016), The merger of branches and extensions was carried out (of which, nine in 2016), eight Head Office properties were closed down and returned/sold (of which, one in 2016), moved out and returned were two investment centers and one branch (two of which in 2016), the floor area of six branches was reduced (one of which in 2016), the terms of agreement regarding three properties were improved (one of which in 2016).
As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

Floor area at the disposal of Bank branches

As of	Sq. meters	Number of brunches	Average Sq. meters per branch
December 31, 2016	67,997	122	557.4
December 31, 2015	71,300	132	540.2
December 31, 2014	74,068	138	536.7
December 31, 2013	80,257	145	553.5

Distribution of all floor area at the disposal of the Bank

	As of December 31			
	2016	2015	2014	2013
	In Sq. meters			
Freehold	107.5	109.1	112.4	115.7
Leasehold	50.3	50.5	54.2	56.6
Total	**157.8**	**159.6**	**166.6**	**172.3**

Mercantile Discount Bank – Sale of buildings. As part of the efficiency measures adopted by MDB, it has been decided to relocate certain of its Head Office units, from the building that serves the Management offices in Tel Aviv to the office compound in Holon, which serves, among other things, the back office units. An agreement for the sale of that part of the office building that served the said units was signed on July 16, 2015. In addition, in 2015, the operations of two branches operating in the Tel Aviv area were merged and relocated to a more central venue, the office premises of one of these branches being sold. Gains of NIS 25 million, net of the tax effect, were recognized in 2015 in respect of the said sale of the property.
Gain on sale of assets. In 2016 a gain from the sale of properties of approx. NIS 63 million was recorded, net of the tax effect, compared with NIS 39 million in the corresponding period last year. In the first quarter of 2017, the Bank is expected to recognize, a gain from the sale of properties of approx. NIS 12 million, net of the tax effect.

ACCESSIBILITY FOR HANDICAPPED PERSONS

Preparations by the Bank. In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator whose duties are to lead and coordinate the accessibility operations at the Bank and serve as an address for any approach in the matter. Within the framework of these preparations, the Bank conducts a "Discount accessible" project, within the framework of which, the Bank makes accessibility modifications in accordance with the new regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. Within the framework of this project, a multi-annual plan has been formed for the completion of accessibility modifications.
For the purpose of the project, the Bank engaged an association specializing in the matter of access to handicapped persons, in which authorized professionals operate, who accompany the Bank, providing guidance and advice on the modifications required for easy access, including the defining of requirements for the elimination of existing accessibility differences as regards all relevant services and installations.
Within the framework of the project, a comprehensive survey of all the Bank's properties had been performed for the mapping of gaps and the definition of modifications to be carried out in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to a public place being an existing building), 2011. Furthermore, the Bank had mapped all services which require modification of accessibility to services in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to service), 2013.
Accessibility modifications – present situation. During the reported year (2016), the Bank completed accessibility to 65% of its properties in accordance with the determining date prescribed by the Regulations (June 22, 2016) and has prepared for the accessibility of a further 35%

of the properties in the fourth and final stage dated November 1, 2017, so that at date of the fourth stage, the percentage of accessible Bank properties, both as regards accessibility to services and to premises, infrastructure and the environment, would amount to 100%.
In addition, accessibility modifications have been made at the marketing Internet website and in the operations website, and in addition, training sessions are held to employees on the accessibility subject.

INFORMATION AND COMPUTER SYSTEMS

GENERAL

The information and control systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. The Bank's data processing system is a central computer system composed of IBM Main Frame computers, servers of different types, communication components and work stations deployed at the branches and at Head Office units.
Some 12,000 work stations (PC's) and 3,000 servers are installed at the branches and at head office units, which are being used to both internal and external customers.
Direct banking services are provided by the Bank through a variety of lanes: Internet, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.
Some 500 information stations are available to customers providing also self service operations and a wide variety of services - "Discount Information Station".
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems, within the framework of the "Ophek" project, are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, in accordance with preferences of the budget and strategic plans.
For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, HDC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

LOCATIONS OF THE OPERATION

The technological layout is doubly installed in two different locations distant from one another, in various cities in the Greater Tel Aviv area. The fact that the two systems are located at a distance from one another adds to the survivability of the Bank's technological layout. The Bank's two computer sites are connected by optical fibers in a number of different routes. The Bank has the ability to maintain the required business operations in each of the locations independently. These sites also house the disc systems of the companies IBM, Netapp, Kaminario and Oracle, cassette robots, central printers and additional peripheral equipment required for the Bank's operation. Needless to say that this equipment is also backed-up at the two sites. The branches and the head office units are connected to the computer center by two communication lines. The two lines are simultaneously active, each line providing an adequate bandwidth for each website. In the event of failure, one line provides back-up for the active applications on the other line, and vice versa.

PRINCIPLE PROJECTS CONDUCTED IN 2016

1. Secondary computer installation – the transfer of the Bank's secondary computer installation to an alternative location was completed;
2. CRM – A new CRM system was developed enabling the management of sale processes and approaches to customers made through a wide variety of channels (telephone, E-mail, cellular application correspondence, the Bank's websites and more) in accordance with a flexible business routing strategy. The system is in operation at three branches and at a team at the call center in a pilot project, and is planned to be deployed during 2017 at all branches of the Bank and at additional units;

3. Direct channels –A wide array of developments were implemented at all online channels, and including additional advance orders regarding securities and "personal planning" service, by which the customer is able to obtain a status of his expenses and income by categories, to view data such as cash flow, to manage a monthly budget, to define alert notices and to define savings for any purpose, the development and introduction of a new cellular application for private customers having a rich functionality and advanced user experience which includes also new services such as the withdrawal of cash without using a card, loan and foreign currency information;
4. Credit system – Development has begun of a new Group credit system, enabling the availability of information and effective management ability of the credit portfolio, real-time information management, more efficient and simpler credit underwriting processes (both retail and corporate), risk reduction and elimination of functional gaps in this field;
5. Projects designed for compliance with regulatory requirements, such as prohibition of money laundering, FATCA, new bills.

PRINCIPLE PROJECTS FOR 2017

1. CRM and customer interaction – continuing the development of capabilities in the field of managing customer relations, inter alia, in order to enable advanced multichannel and multicenter service;
2. Online channels – continuing also this year investments in development in all channels, with a focus on Internet websites and mobile phones, inter alia, as regards corporate banking and securities;
3. Customer surfing and multichannel – characterization and development of cross-channel customer surfing, in order to improve user experience and simplify business core processes;
4. Cyber and data protection – continuing the development of guidance, forestallment, prevention, monitoring and control capabilities, while realizing the Discount defense concept regarding cyber and challenging an array of renewed cyber threats.

The Bank's budget for 2017 in respect of projects for the development of information systems, including for information system development projects, amounts to NIS 317 million. This, compared with NIS 297 million in 2016.

The contents of the above section constitutes a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carryout the Bank's plans at date of publication of the reports.

ICC

In 2016, ICC began making preparations for the conversion of the core system, with the aim of establishing business continuity in its core activity once the outmoded technological infrastructure reaches the end of its lifespan. Additionally, with the aim of establishing a new modern infrastructure having a long-term technological horizon on which the core system can be operated. The conversion project is expected to continue through the end of 2020.

ICC is making preparations to transfer its main computer facility, currently located in Givatayim, to a host site at the financial IT and operations facility in Rishon Lezion in 2017. As part of the project, the company will strengthen the DR site and will replace old IT equipment with new equipment.

INTANGIBLE ASSETS

Trade marks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc.

ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trade marks in Israel, including "ICC", "Cal" "Cal Choice".

Furthermore, the Bank's subsidiary companies own trade marks, related brand names and slogans registered for the purpose of their business and marketing operations.

Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trade marks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.

The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. Diners and Diners International signed agreements in March 2007 granting Diners the license to make use of trade marks and to issue credit cards, to open accounts and the exclusivity to provide services to customers in Israel until the year 2019. The said agreements are renewable for periods of five years each at the discretion of Diners International.

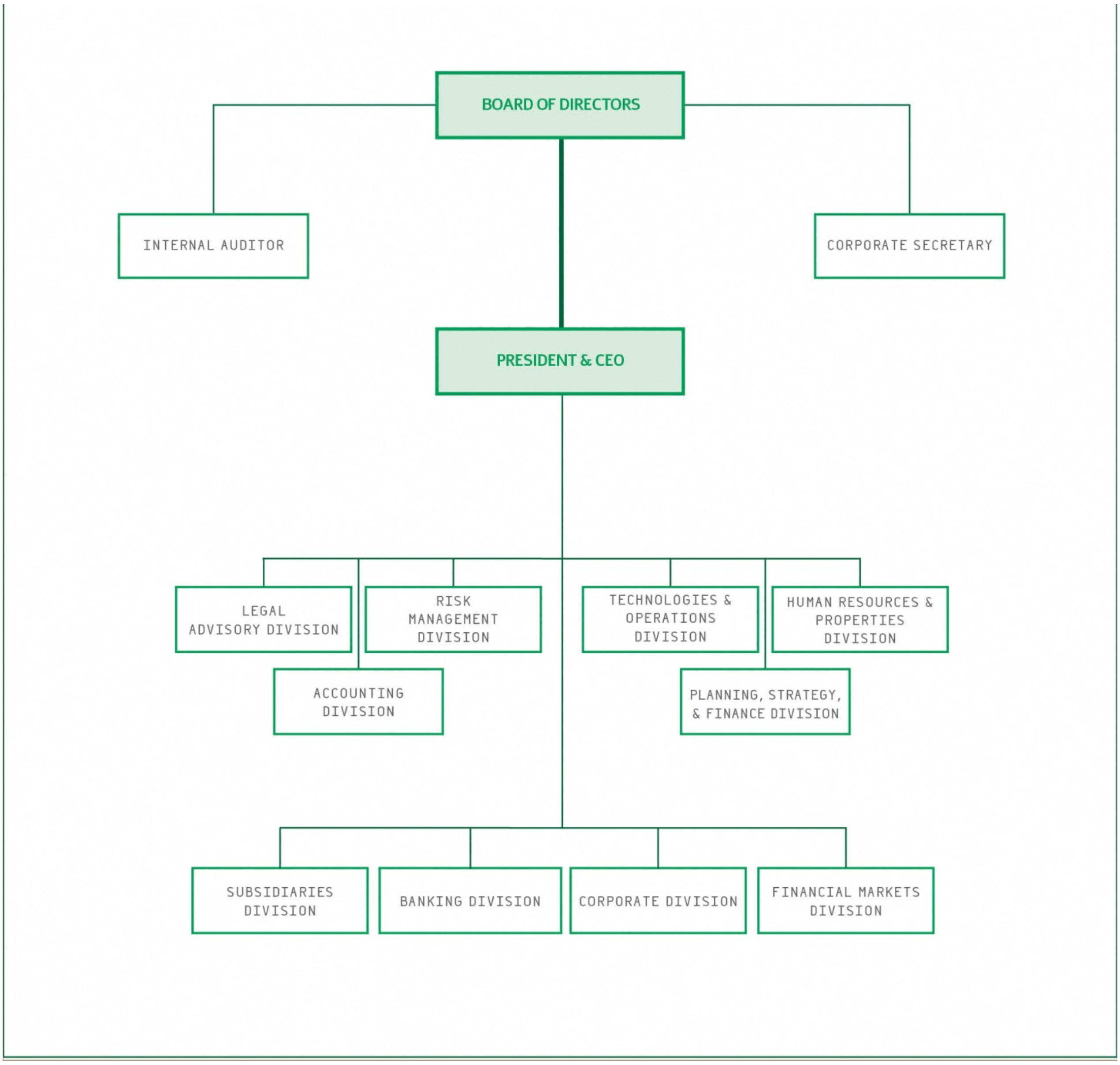
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.

Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees. Thus, among other things, ICC holds a number of data bases of registered customers holding VISA, Diners (through Diners) and MasterCard credit cards, as well as of traders accepting these cards.

THE HUMAN CAPITAL

ORGANIZATIONAL STRUCTURE CHART



MANAGEMENT OF THE HUMAN RESOURCE - GENERAL

PRINCIPAL ACTIVITIES IN 2016

2016 Efficiency plan. In 2016 the Bank's Management has formed a plan for accelerating the efficiency, in the center of which is the reduction in the manpower status of the Discount Group by approx. 1,000 additional employees by the year 2021, both by early retirement and natural retirement. The Bank's Board of Directors approved the plan on September 13, 2016. (For additional details, see above "Efficiency of the banking industry – 2016 efficiency plan" and Note 23 to the financial statements).

Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB). 1 additional employees has signed a retirement agreement and is expected to retire until the end of the first quarter of 2017.

Signing of a wage agreement until 2018. Following several months long negotiations, the Bank's Management and the national committee organization of Discount Bank employees signed on November 30, 2016, as to a wage agreement that settled wage demands until the year 2018. Within the framework of the agreement, the labor charter was extended to 2021, while making changes to several significant items.

Following are the principal items of the agreement as regards tenured employees (employees of a “tenured” status at date of signing of the agreement, and which would continue to be employed on the dates of actual payment of wage increments and/or awards and/or bonuses as determined in this agreement):

(a) A monthly shekel increment shall be paid to an employee, in the amount of NIS 1,500 on an average, divided into two portions: NIS 1,000 per person – a standard comprehensive increment, payable at the beginning of 2017, and NIS 500 on an average (between NIS 100 and NIS 900), being a selective increment payable at the beginning of 2018;

(b) Managers shall be paid a monthly shekel increment of NIS 1,750 on an average per person, divided into two portions: NIS 1,200 per person – a standard comprehensive increment, payable at the beginning of 2017, and NIS 550 on an average (between NIS 100 and NIS 1,100), being a selective increment payable at the beginning of 2018;

The selective increments shall be determined by Management in accordance with the following criteria: evaluation marks, seniority, complexity of duties, etc.

c) The payment to managers at the Bank of "transfer fees" (payment in respect of the transfer from one office to another) will be abolished, and in return managers will be entitled to a one-off increment at the rate of 2.8%, spread over the next four years (0.7% per year);

d) Employees will receive a one-off differential award, in the average amount of NIS 20,000 and to managers in the average amounts of NIS 26,000. The award will be paid to employees by the end of the first quarter of 2017.

(e) The employees will be entitled to receive an annual bonus dependent on the level of the annual return on equity in 2017 and 2018;

(f) Employees with a grade of “branch manager”, at the time of signing the agreement, will be entitled to a personal and uniform salary increment at the rate 2% (1% for each of the years 2017-2018), which will be added to their monthly salary.

Furthermore, several items of the labor charter were changed allowing higher administrative flexibility, such as: mobility of managers at no cost; a flexible track for the promotion of employees to managerial roles; increasing the quota of personal employment agreements; extending the period for temporary employment, expansion of disciplinary measures; cancellation of the trial period for temporary employees; transfer of employees engaged at the Bank within the framework of the “Giving to the Community” project to "tenured" staff status; for those eligible, the possibility of receiving a company vehicle instead of a mileage allowance.

The new agreement had no effect on the Bank's profits for 2016, and it is in agreement with the Bank's multiannual strategic plan.

CHALLENGES FOR 2017

Effective management of the labor force and its cost. The central challenge for 2017 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plans of 2014 and of 2016 on the one hand, and the utilization of the natural retirement potential in 2015-2017 and thereafter on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

LABOR FORCE AND SALARY EXPENSES

The implementation of the early retirement plans at the end of 2014 and at the end of 2016, a strict management of the manpower position of the Bank and the reduction in overseas operations, led in the years 2014-2016 (December 2013 until December 2016) to a reduction of 1,489 positions in the group, comprising a decrease of 14.8% and to a decrease of 1,345 employees in the Group, a decrease of 12.5%.

There were 5,702 employees in full-time positions in the Bank in Israel at the end of 2016, compared with 5,530 at the end of 2015, a decrease of 3.1%. The average monthly number of employees, based on full-time positions, in the Bank in Israel (not including overseas branches) dropped in 2016 and amounted to 5,413, as compared to 5,510 in 2015, a decrease of 1.8%.

There were 8,558 full-time positions in the Group in Israel and abroad at the end of 2016, compared with 9,308 at the end of 2015, a decrease of 8.7%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2016, was 8,842, compared with 9,308 at the end of 2015, a decrease of 9.6%.

Labor force data of the Group and the Bank

	Employees				Positions[(1)]							
	As of December 31				As of December 31				Monthly average in			
	2016	2015	2014	2013	2016	2015	2014	2013	2016	2015	2014	2013
The Bank in Israel	5,702	6,034	6,095	6,657	5,126	5,530	5,515	6,173	5,413	5,510	5,942	6,078
Domestic subsidiaries	3,214	3,096	3,222	3,303	2,946	3,037	3,066	3,090	2,930	3,019	3,052	3,128
Group total in Israel	**8,916**	**9,130**	**9,317**	**9,960**	**8,072**	**8,567**	**8,581**	**9,263**	**8,343**	**8,529**	**8,994**	**9,206**
Overseas branches	-	-	26	34	-	-	26	34	-	21	32	34
Overseas subsidiaries	485	498	775	752	486	501	762	750	499	758	759	760
Group total overseas	**485**	**498**	**801**	**786**	**486**	**501**	**788**	**784**	**499**	**779**	**791**	**794**
Group total overseas and Israel	**9,401**	**9,628**	**10,118**	**10,746**	**8,558**	**9,068**	**9,369**	**10,047**	**8,842**	**9,308**	**9,785**	**10,000**

Footnote:

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

As seen from the above Table, as of the year 2016, the number of positioned in the Group decreased by 510 positions. The reduction stems mainly from the retirement of employees within the framework of the 2016 efficiency plan as well as from the natural retirement of employees. The average monthly number of positions in 2016, decrease by 466 positions, mainly in the Group abroad. The reduction stems mainly from the natural retirement of employees and from the closure of the Bank's overseas extensions.

Cost per position, in NIS thousands, on the basis of costs reported in practice

	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
The annual average direct cost[(1)] per employee position in the Bank in Israel	246	245	245	0.4	-
The total annual average cost[(1)] per employee position in the Bank in Israel	400	372	459	7.5	(19.0)
The average annual overall payroll cost[(1)] per employee of the Group in Israel and abroad	386	365	418	5.8	(12.7)

Footnote:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2016 by a rate of 0.4% (see Table above). With elimination of the awards, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2016 by a rate of 1.3% (see Table below).

The total average annual cost of an employee position at the Bank in Israel, increased in 2016 by a rate of 7.5% (see Table above). The said increase results mostly from the fact that the data for 2016 include the impact of the efficiency plan. Eliminating the cost of the efficiency plan, as stated, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 1.1%, compared with 2015 (see Table below).

Cost per position, in NIS thousands, eliminating certain components

	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
The annual average direct cost[(1)] per employee position in the Bank in Israel - Disregarding awards	244	243	244	0.4	(0.4)
The total annual average cost[(1)] per employee position in the Bank in Israel - Disregarding awards	374	370	370	1.1	-
The average annual overall payroll cost[(1)] per employee of the Group in Israel and abroad - Disregarding awards	358	350	354	2.3	(1.1)

Footnote:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

HUMAN RESOURCES ACCORDING TO SEGMENTS OF OPERATION

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation

	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	Total
	For the year ended December 31, 2016									
Average number of positions in the segment	4,630	196	2,300	423	473	112	209	8,343	499	8,842
Of which: Management positions	890	41	421	90	110	27	53	1,632	258	1,890
	For the year ended December 31, 2015									
Average number of positions in the segment	4,926	212	2,212	417	397	93	272	8,529	779	9,308
Of which: Management positions	1,006	57	421	95	105	23	74	1,781	262	2,043

LABOR RELATIONS

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd. ", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter.

Within the framework of the collective labor agreements, signed in June 2011, the validity of the Labor Charter was extended until December 31, 2016, and it has been agreed that unless otherwise informed by one of the parties to the other party by notice in writing of up to three months prior to the said date, the validity of the Labor Charter will be extended for one additional year, being repeated in each year. In an agreement dated November 30, 2016, the validity of the Charter was once more extended until December 31, 2021, with the notice mechanism, as stated, remaining unchanged, and due to be renewed when the current Labor Charter reaches the end of its term (December 31, 2021).

PRINCIPAL CATEGORIES WITH RESPECT TO EMPLOYMENT CONDITIONS

The Bank's employees are classified into three main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements. The item in the collective labor agreement of June 2011, relating to the updating of grading and stages, changed certain of the employment terms of new employees engaged as regular employees as from January 1, 2012. The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period. It is noted that in the agreement dated November 30, 2016, the trial period applying to employees assigned from the status of temporary employees to the status of tenured employees was abolished, as from date of signature of the agreement, and such employees would now be assigned to the status of tenured employees with no need for a trial period.

As of December 31, 2016, the Bank`s tenured employees numbered 829, employed under a new employment agreement in accordance with the collective agreement of June 2011 (December 31, 2015: 689 employees).

Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. In the labor agreement of June 2011 in the matter of the extension of the validity of the Labor Charter, the maximum temporary engagement period was shortened from five years (with the possibility of extension of even up to seven years in special cases), to two years (this excluding employees engaged as tellers, concept branch and direct banking employees, whose maximum employment period remained five years). In an agreement dated September 12, 2013, the temporary employment period of these employees has been extended by one additional year, to three years (the agreement is valid for five years) and in the agreement dated November 30, 2016, the period was extended by one additional year to four years. Temporary employment may be terminated at any time, at the discretion of management. For details regarding the extension of the period of temporariness for up to fifty temporary employees in total, see below "Developments in labor relations".

241 employees engaged by the Bank (December 31, 2015: 284 employees) as "computer temporaries". These employees are engaged in the IT field, and in accordance with an agreement dated 2002 between the Bank's Management and the representative committee of employees, may be engaged in a temporary status for a period of up to seven years (the quota of temporary computer employees which the Bank may engage, is 750). For details regarding an agreement allowing the employment of computer workers in a temporary position status, with no time limitation, see below "Developments in labor relations".

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, which precludes the Labor Charter and the collective labor agreements for these employees. Employees engaged under a personal contract include members of the Bank's management, part of the information technology staff and a defined and specified agreed list of position holders, mainly senior personnel. As of December 31, 2016, the Bank employed 76 personnel (including members of management) under personal employment agreements (December 31, 2015: 87 employees engaged under personal contracts). The agreement dated November 30, 2016, added 73 positions under personal employment agreements, of which, 15 dealer positions and 20 managerial grade positions.

In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

Summary of employment data in the Bank in the various categories and the changes therein

	As of December 31,				Change		
Employees	2016	2015	2014	2013	2016 compared to 2015	2015 compared to 2014	2014 compared to 2013
Tenured employees under personal contracts and members of management	3,917	4,149	4,115	4,501	(232)	34	(386)
Temporary employees	1,304	1,386	1,493	1,685	(82)	(107)	(192)
Manpower employees	-	-	-	8	-	-	(8)
Software house	308	314	301	283	(6)	13	18
Total	**5,529**	**5,849**	**5,909**	**6,477**	**(320)**	**(60)**	**(568)**
Additional – employees on unpaid leave and maternity leave	173	185	186	180			6
Total	**5,702**	**6,034**	**6,095**	**6,657**	**(332)**	**(61)**	**(562)**
Positions							
Tenured employees under personal contracts and members of management	3,963	4,228	4,156	4,533	(265)	72	(377)
Temporary employees	1,283	1,389	1,532	1,734	(106)	(143)	(202)
Manpower employees	-	-	-	5	-	-	(5)
Software house	288	325	302	284	(37)	23	18
Total	**5,534**	**5,942**	**5,990**	**6,556**	**(408)**	**(48)**	**(566)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	179	206	226	226			
Of which positions of software house employees of which has been capitalized to fixed assets	229	206	249	157			
Total positions before of which has been capitalized to fixed assets	**5,126**	**5,530**	**5,515**	**6,173**			

The implementation of the early retirement plans at the end of 2014 and at the end of 2016, and a strict management of the manpower position of the Bank, led in the years 2014-2016 to a reduction of 955 positions at the Bank, comprising a decrease of 14.3%.

DEVELOPMENTS IN LABOR RELATIONS

Signing of a wage agreement. For details, see above "Principal activities in 2016".

Labor dispute. On July 23, 2015 a notice was delivered to the Bank from the Union of Clerks, Administrative Public Service Employees ("Histadrut HAMAOF") on the deceleration of a labor dispute at Discount Bank, in accordance with Section 5a and 5b of the Settlement of Labor Disputes Law, 1957 and resulting regulations. In accordance with the notice, a strike in the Bank could have been called as from August 9, 2015, and thereafter. On December 14, 2015, the representative committee of employees introduced various sanctions, which include the alternating shutdown of units as well as disallowing of employee mobility. On February 25, 2016, the sanctions were lifted. In the agreement from November 30, 2016, the labor dispute was terminated.

Minimum wage (Increasing the minimum wage amounts – provisional instruction), 2015. Three stages have been determined in the provisional instruction: in April 2015, in June 2016 and in January 2017. With respect to its temporary employees, the Bank has advanced the third stage to the date of the first stage. For further details regarding the provisional instruction, see the 2014 annual report (p. 236).

Changes in the employees' representative committee. Elections to the employees' representative committee were held in March 2016, resulting in a change in the composition of the national committee, with seven new members (out of 21 committee members) replacing existing members. Also, the committee members have elected from among themselves, a new chairman to head the national committee.

COLLECTIVE LABOR AGREEMENTS – AGREEMENTS SIGNED IN 2016

- On September 1, 2016, a special collective labor agreement was signed in respect to "IT staff", which allows the continued employment, of 250 employees (out of a total of 750 temporary IT staff employed for seven years) for more than seven years and without any time limit, at a status of IT staff. The Labor Charter that applies to tenured employees will not apply to either temporary or permanent IT staff.
- On September 1, 2016, a special collective labor agreement was signed in respect to "extending the temporary period for employees", within the framework of which it was decided to extend the temporary period for up to 50 temporary employees, whose identity would be determined at the sole discretion of the Bank's Management, for a further 24 months.
- On November 30, 2016, a wage agreement was signed until 2018. For further details, see under "Principal Activities in 2016".

REMUNERATION PLAN FOR MEMBERS OF THE BANK'S MANAGEMENT

The Bank approved an awards plan for Officers for 2015-2016, which reflect the challenges and goals derived from the strategic plan approved on August 20, 2014 (See Note 23 F to the financial statements).
For details regarding the awards actually paid to the vice presidents and the President & CEO in the years 2014-2016, see Note 23 F and 35 H, respectively.

LABOR RELATIONS OF THE PRINCIPAL SUBSIDIARIES

ICC. A special collective labor agreement was signed on June 26, 2016, by ICC, the New Federation of Labor and the National Committee of ICC employees. This agreement amends and continues earlier agreements dated December 21, 2011 and March 23, 2015.
The agreement shall be in effect until December 31, 2018. Until that date, the parties are committed to maintain industrial peace with respect to the issues and terms as determined in the agreement. Upon the agreement taking effect, the labor dispute declared on April 17, 2016, was terminated.
In the framework of the agreement, among other things, a selective annual salary increase was determined at an average rate of 3.1% for each of the years 2016, 2017 and 2018. Also determined is an annual seniority addition of 0.5% payable to employees of a "tenured employee" status, as defined in the agreement. The agreement also grants salary increases to employees earning a low wage, additions to the rates of deposits for pensions as well as other benefits. On the other hand, changes were made in the arrangements prevailing prior to the signature of the agreement regarding jubilee awards.
According to the agreement, workers of ICC will be eligible as a special monetary bonus in respect of the sale of Visa Europe to Visa Inc. The cost of the bonus, in the amount of NIS 20 million, has been recognized as an expense in the second quarter of 2016.
MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" - and complementary collective agreements. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M..
A wage agreement was signed on January 29, 2015, between Bank Leumi and its employees, which will be effective for a period of four years as from the year 2015 ("the agreement").
Following the signing of the agreement in Bank Leumi, a wage agreement has been signed on April 28, 2015 between MDB and the employee representative, which constitutes an update to the former agreement with effect for four years starting January 1, 2015. The updated wage agreement adopts relevant understandings for MDB determined in the wage agreements of Bank Leumi, and adjusts other components to the labor charter prevailing in MDB.

The financial statement of MDB included appropriate provisions derived from the updating of the wage agreement, as stated. Accordingly, the Bank recorded in 2015, a nonrecurring decrease in payroll expenses, in the amount of NIS 30 million (stemming from the expected decrease in liabilities for the payment of jubilee awards on the one hand, and the recording of provisions for non-utilized sick leave and the payment of a one-off award on the other hand). On the other hand, the application of all components included in the new wage agreement, increased the current payroll expenses of MDB in 2015, by an amount of approx. NIS 9 million.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND ARRANGEMENTS

General. In addition to the labor charter, the various collective agreements existing from time to time, the Bank operates within the framework of laws and regulations applying to all entities in the economy. A short description of the principal restrictions applying to the Bank with respect to its labor relations is given hereunder.

Improvement of enforcement of labor laws. On June 19, 2012, the Intensification of Enforcement of Labor laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The Act specified an administrative enforcement mechanism, which includes warnings and the imposition of monetary sanctions on employers who violate labor laws, which will serve as an alternative for criminal indictments by power of labor laws. The law imposes extensive liability on employers with respect to their direct employees, as well as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved. The Bank is preparing in accordance with the requirements of the provisions of the law. In 2013 the Bank intensified the supervision over the outsourcing companies and hired the services of an independent accountant, who performs a monthly test audit as required by law, and deficiencies, if found, are being attended to accordingly.

Amendment 24 to the wage protection law, 1958. Amendment 24 to the Wage Protection Law came into effect on February 1, 2009, according to which an employer is required to provide his employees a monthly pay slip detailing the payment made to the employee. The amendment requires the pay slip to include certain details concerning the composition of wages. It is also required to state the number of days on which the employee actually worked, as well as the number of hours actually worked, including overtime, in accordance with the record keeping alternatives provided by the Law. The amendment set forth criminal sanctions and civil remedies.

Following the intensive negotiations have taken place with representatives of the employees, with a view of forming a collective agreement that would regulate the calculation of employee attendance, a collective agreement in the matter of recording attendance at work and overtime compensation was signed. The agreement signed in the matter with the employee representative committee on March 28, 2014 took effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) on January 1, 2015. In accordance with the provisions of the special collective labor agreement dated November 8, 2015 in respect to “adjustments and changes required in the collective labor agreement from March 28, 2014”, overtime pay for all employees (other than “split shift” employees), in accordance with the Labor Charter computation, will be paid in the following manner: 125% for the first 15 overtime hours in a month and 150% for the 16th and any additional overtime hours. Overtime pay will be computed on a monthly basis.

Ruling in the matter of forced retirement on grounds of age. In December 2012, the National Labor Court issued an innovative ruling with respect to the duty of employers to consider approaches made by employees facing retirement on grounds of age (67 years), who are interested in continuing their employment. In accordance with the said ruling, employers must consider approaches made by employees based on the personal circumstances of each employee and not only on the requirements of the employer. In actual fact, a part of the employees apply for the continuation of their employment, and the Bank acts in accordance with the procedures required by the said ruling of the Court.

Collective agreement in the matter of proper representation in the workplace of handicapped persons. A collective agreement was signed on June 25, 2014, by the Business Associations Board, the Manufacturers Association in Israel, Federation of Israeli Chambers of Commerce (FICC) and other organizations with the Federation of Labor, which states that an employer, who employs over 100 employees, must provide for the proper representation of handicapped persons. The parties have defined that "proper representation" at the end of the first year since the agreement became effective, would be 2% of the total number of employees employed by an employer, and 3% at the end of the following year. It has also been agreed that an employer has to appoint a person on his behalf as "responsible for the employment of handicapped persons".

The agreement became effective on October 5, 2014, upon the publication by the Minister of the Economy of the Extension Order. The Bank is preparing for the implementation of the provisions of the collective agreement, including the appointment of a "responsible officer", as stated.

Increasing the provisions for pension insurance in the market. A general collective labor agreement, signed in the market on April 3, 2016, with an Expansion Order in respect thereof dated May 23, 2016, according to which the minimum rates of the provisions for pension were raised in respect of all employees. It was decided, inter alia, that each employee would be assured a pension in respect of his determining wage, under the following terms: as from July 1, 2016, the contribution in respect of the provident component would be 5.75% by the employee and 6.25% by the employer; as from January 1, 2017, the contribution in respect of the provident component would be 6.0% by the employee and 6.5% by the employer. It was also decided that these components would include also contributions by the employer in respect of loss of ability to work. It was also decided that, where an employee is insured under an executive's insurance policy, contributions for loss of work ability will be included in the provident contribution rates, provided that the employer's Provident contribution rate is not less than 5% of the employee's salary. The Bank has made preparations to comply with the provisions of the collective labor agreement, including payment in respect to loss of work ability.

REMUNERATION POLICY IN A BANKING CORPORATION

Instructions in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, which has to be formed by the remuneration committee, as well as determine principles for a Group remuneration policy. The remuneration policy shall apply to all employees of the banking corporation and to all types of remuneration, while focusing on the remuneration mechanism for key-employees (as defined in the instruction).

The instruction prescribed restrictions and requirements regarding the variable remuneration, according to which:

- The Remuneration Committee of the Board shall have to determine in advance the adequate ratio of the variable remuneration and the fixed remuneration in respect of different groups of employees;
- The maximum variable remuneration shall not exceed 100% of the fixed remuneration, excluding exceptional cases;
- It is required to defer the payment of at least 50% of the variable component of the remuneration in respect of key employees over a period of not less than three years, where the scope of the variable remuneration exceeds one-sixth of the annual remuneration;
- The granting of variable remuneration, which is not performance based, should be avoided, other than in exceptional cases.

On August 13, 2015 the Supervisor of Banks published a circular for the amendment of Proper Conduct of Banking Business Directive No. 301A regarding "Remuneration Policy in a Banking Corporation" within the framework of which instructions were set, according to which a banking corporation has the duty to determine a mechanism for the recoupment of the variable remuneration paid to a key employee, in exceptional circumstances, where the employee had been a party to conduct causing exceptional damage to the corporation.

The Supervisor of Banks published on September 29, 2016, a circular of the amendment to the Directive ("The Directive"), as well as a FAQ file for the implementation of the Directive. The circular was issued following the passing of the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of the expense in respect of exceptional remuneration), 2016 (see above) and its expected implications on the amount of remuneration paid by banking corporations and its composition.

Within the framework of the amendments to the Directive, the definition of "key employee" has been reduced so that it is not required to include an executive who reports directly to a Vice President, as well as an employee whose remuneration agrees with the provisions determined in Section (b)(2) of the Directive and who is not an officer in accordance with the Companies Act. Likewise, the definition of fixed compensation was amended in the Directive, whereby restricted shares exercisable at the time of their grant can be recognized as "fixed compensation". Furthermore, it introduces the possibility of granting an officer a discretionary award of not more than three monthly salaries, with this being in accordance with the amendment made recently to the Companies Law. Within the context of the amendment, a revocation was made to the requirement prescribed in the Directive to grant 50% of the variable remuneration by way of shares or share based instruments. It is further determined that the duty to defer 50% of the variable remuneration shall not apply to variable remuneration the scope of which does not exceed 40% of the fixed remuneration, and on condition that the remuneration does not deviate from the upper limit determined in the Remuneration Act.

Remuneration policy for Officers of the Bank. The Bank's general meeting of shareholder approved in February 2014, a remuneration policy for officers, in accordance with Section 267A of the Companies Act, 1999, in accordance with the instruction and with Amendment No. 20 to the Companies Act (see "Legislation and supervision" above).

The remuneration policy and remuneration agreements signed with the Chairman of the Board and with the President & CEO, were brought for approval of the General Meeting of Shareholders, held on November 8, 2016, modified to the Remuneration Act (see above Note 21 to the condensed financial statements and "Legislation and Supervision" hereunder), all as detailed in immediate reports dated September 28, 2016, and November 9, 2016 (Ref. Nos. 2016-01-056790 and 2016-01-074847, respectively), the information provided in them in these matters, is included herewith by way of reference.

Employees remuneration policy. In June 2014 the Bank approved a remuneration policy for all employees of the Bank has been approved, including in respect of central employees, as well as the principals of group remuneration policy, the remuneration policy for officers, as approved by the general meeting of shareholders comprising a part thereof. In December 2016, the Board of Directors approved an updated remuneration policy for employees.

As part of the employees remuneration policy, restrictions have been set that apply to the variable remuneration of employees and provisions have been prescribed with regard to the fixed and variable remuneration of key employees, as well as reference to supplementary procedures regularizing the distribution of responsibility in respect of the relevant functions at the Bank engaged in the remuneration mechanism. Moreover, within the framework of the Group remuneration policy, principles have been prescribed regarding the fixed and variable remuneration of officers of controlled corporations.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

For details regarding the Remuneration for Officers of Financial Corporations Act, see “Legislation and Supervision” below.

DEVELOPMENT OF HUMAN RESOURCES

Development of human resources at the Bank derived from the strategic focuses and the Bank's organizational culture. Thus reinforcing the Bank’s ability to address successfully its business and organizational challenges.

MANAGEMENT AND LEADERSHIP

Establishing, cultivating and strengthening the managerial backbone, throughout its extent, by developing managerial leadership that supports strategy.

Development of acting managers

Enrichment activities for the senior manager forum (reporting to VP's). Activities for the management and business enrichment of the senior manager echelon and for strengthening of networking within the forum. For example: experience gaining studies including exposure to other organizations, enrichment lectures and significant activity of contribution to the community.

"An executive training room". Practical-implemental training, subject focused, for the maximization of the variety managerial skills and qualifications of the Bank's managers. In 2016, some 250 managers participated in the “executive training room”, undergoing various training in relevant management subjects.

Training of managers in an organic unit on the subject of initiative and business development – a practical program for fifteen business managers and forty business bankers in the Corporate Division, positioning them as creators of value and as trusted advisors of existing and potential customers, as well as providing practical tools for attracting and increasing activity with customers in a competitive era.

Managers' website for the intensification of professionalism in management by way of the current publication to all managers of articles/tools/TED clips on the subject of management.

A program for the development of team leaders and the development of organic teams – development activities in this respect were conducted in 2016 for 86 managers.

Personal development

Assisting and advising managers when assuming new duties and/or advising and on the job managerial training. Assisting new branch managers upon their entry into office was performed according to an integrative guidance and assistance layout, for intensifying the role concept of a branch manager. Assistance and counsel was given to 71 managers in 2016.

The mentoring of managers and units undergoing change. Organizational diagnosis, development plans, consulting and support assistance to units in view of processes of change at the unit. Assistance was given within this framework to 28 managers in 2016.

PROFESSIONAL GUIDANCE

In 2016, a comprehensive response was provided for professional needs by means of training that dealt with the qualification of employees for core banking positions, as well as ongoing on-the-job training. A significant portion of this was devoted to training employees who had replaced other employees who had taken advantage of early retirement as part of the implementation of the strategic plan.
The main guidance focal points were: enhancing the professionalism of officeholders in the credit field, financial consulting, regulation, compliance and the massive training of tellers and service teams.
A training program was continued in 2016 regarding the Act concerning accessibility for handicapped customers. In this framework 104 experience workshops were held, compared with 74 workshops in 2015, for 1404 employees as compared with 1181 employees in 2015. In these workshops employees serving customers were given the experience of a customer with disabilities.

The scope of professional and managerial training

The number of training days in 2016 reached 26,575 compared with 26,130 training days in 2015, an increase of approx. 1.7%. The data regarding the number of training days relate to actual training days on the training center premises. In addition, the Bank held computer network training, amounting in 2016 to 39,914 interactions of network self study, compared with 37,200 interactions in 2015 an increase of 7.3%. A significant part of the computer network learning was dedicated to the regulation in different areas (work procedures, safety, cross border risks, etc.).

KNOWLEDGE MANAGEMENT

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at the Bank. A website for managers was opened in 2016 on the Bank's portal with a view of enriching knowledge and tools in the managerial field.

ORGANIZATIONAL CULTURE

In 2016, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service.
Facebank. An organizational portal in the format of news sites on the Internet. This allows updating on news and current updates at the Bank, and invites an open dialogue with senior Management on subjects that are the center of discussion in the organization. Since its establishment, the Facebank provided, among other things, a current updates of the employees regarding the new strategic plan, cross-organizational projects operated within the framework of which, and news regarding the marketing and services field. A designated site was introduced in November 2015 on Facebank, named "Human resources for you" intended for the benefit of the individual employee. The site includes detailed information regarding employee rights, training and development programs, social responsibility, and more.
The Discount code of ethics. The process of updating the ethical code was completed in 2015, and a significant number of Bank employees have undergone training in different frameworks. A process for the definition of a new ethical code modified to the spirit of the Bank and to its new values began in 2017.
Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.
With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2016, including: Senior Forum - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.
"The Managers" website. In 2016, the Bank introduced an internal website "The Managers", which contains tools and content for managers at the Bank, which assist them in the integration of cross-organizational processes stemming from the Bank's strategic plan, as well as enrichment and development content.
Communication with the Senior Forum. In 2016 a designated channel has been established for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis. In addition, special-purpose activities have taken place in order to strengthen joint voluntary activity for the benefit of the community.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices;
- "Ethics Café" – meetings led by a member of the Management, enriching the ways of facing ethical dilemmas.

MEASUREMENT AND EVALUATION

Performance evaluation and feedback. Emphasis was placed in 2016 on the cultivation of excellence and performance in the organization. The findings of this process constitute an infrastructure for the identification of strengths and challenges, as a basis for the formation of development programs. In forming their evaluation, the evaluating managers have been guided to make a distinction between the strengths of the employee being evaluated and the subjects that have to be improved, in order to encourage personal and professional development.
Internal organization reviews. Conducting surveys which serve as a decision supporting tool for the identification of areas of operations requiring improvement.

MAIN POINTS OF EMPHASIS IN 2017

The main points of emphasis in 2017 in the field of development of human resources are:

- The formation of strategy supporting tools and processes, for the enrichment of employees and managers, while creating a connection to the strategy of the Bank and commitment to the organization and its goals;
- Support in the integration of changes in the branch network by assisting the units and training processes (substance of the change – reducing branch operations that do not produce value by means of improved processes and the transfer of operations to the central banking services, and changing the maintenance of relations with customers – transition to a personal banker);
- Assistance in the merger of branches and to new units being established;
- Improving qualification in respect of credit in core operations.

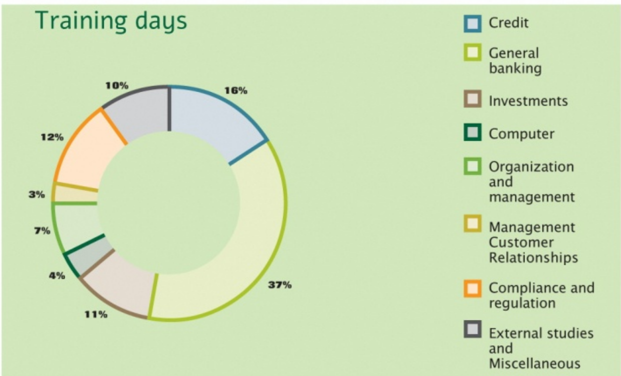
IMPROVEMENT OF SERVICE

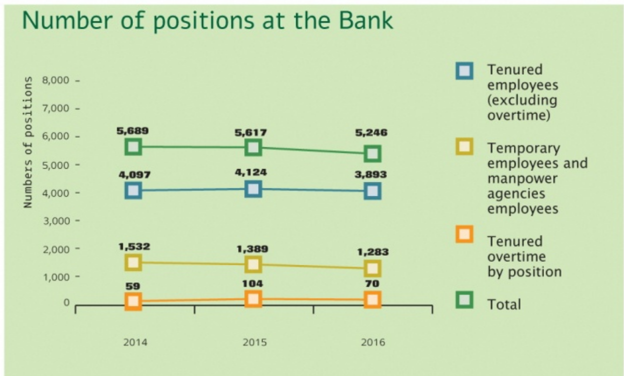
The service concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale. The Bank endeavors to create a personal service experience for its customers, causing them to continue selecting it at every new opportunity.
The multi-channel experience of the customer was measured in 2016, by means of five service indices: recommendation, personal relations, professionalism, availability and attaining service level agreement (SLA) in handling issues referred to the Branch by TeleBank. These five parameters reflect different aspects of service and may be viewed as indices explaining the level of recommendation of the Bank by customers, as an outcome of their satisfaction from the service granted to them.
The measurement data are conveyed on a current basis to managers of the business units at the branches, the investment centers and at TeleBank, and comprise an infrastructure for drawing of conclusions and analyzing the strengths and weakness of providing the service. In situations where immediate involvement is required, the unit manager contacts the customer in order to provide a personal response.
With the aim of providing managers with the tools to improve, new analysis reports have been developed, which provide for a view of the branch's status in the service field and on parameters on which it is advisable to focus improvement efforts.
Internal services survey – The survey was published in February 2016, for the second time at Discount Bank, in a cross-organization format. The results of the survey constitute a "base line" for a continuous process of measurement and improvement. The survey had measured 359 services provided by the various divisions. The rate of respondents reached 90%.
The following measures have been adopted within the framework of feedback and improvement procedures: The findings and results had been presented to all heads of divisions and departments at designated meetings; Each service manager received a detailed report of the findings and an analysis of the results; improvement targets have been defined for each head of department at a KPI level; Units requesting assistance in structuring their improvement plans and establishing a dialogue with users of the service, have been provided with professional assistance.

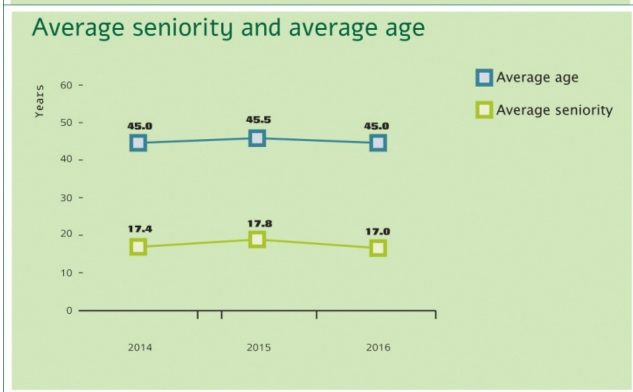
In addition, a convention has been held in honor of outstanding service managers and managers of outstanding units with the participation of the President & CEO as well as members of Management.
A date for the next survey was fixed for the first quarter of 2017. The mapping and improvement of services and respondents began at the end of the year, as well as the structuring of the methodology for the next survey.

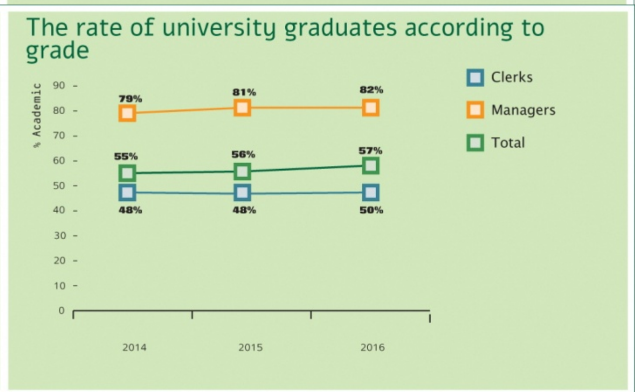
TREATING COMPLAINTS

The reduction in the amount of complaints and the number of justified complaints were defined as a system objective also in 2016.
In August 2016 the Bank-Customer Relations Department at the Supervision of Banks at the Bank of Israel published data on complaints filed against Israeli banks in 2015. The number of complaints received by the Bank via the Bank of Israel decreased from 346 complaints in 2014 to 245 complaints in 2015, a 29% decrease. The number of complaints found to be justified in 2015 decreased compared to 2014 – 12 justified complaints compared to 26 in 2014. The rate of complaints found to be justified decreased from 15.1% in 2014, to 8.9% in 2015. The grade the Bank received from the Supervisor of Banks on the quality of its treatment of complaints was 98.3% in 2015, compared to 98.7% in 2014.
No data has yet been received from the Bank of Israel in respect of 2016.
The annual report to the public regarding the treatment of complaints by the Bank in the period of six months ended on December 31, 2015, may be viewed on the Bank's website. The annual report in respect of 2016, shall be available to the public on the Bank's website at the end of March 2017.



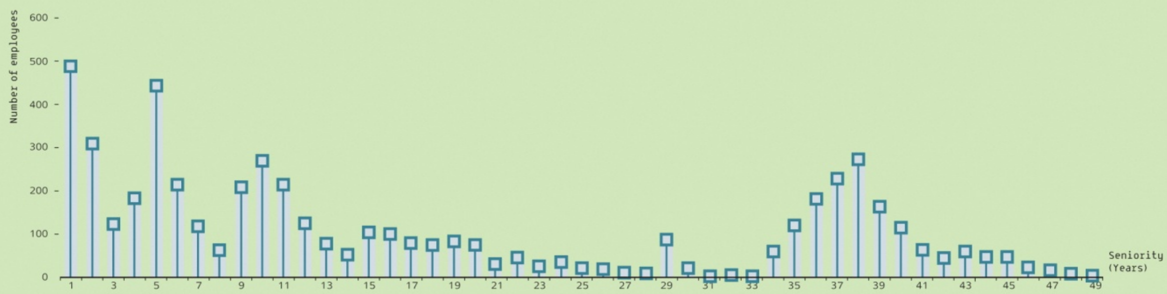






Distribution of tenured employees by age – work force 12/16

Distribution of tenured employees by seniority – work force 12/16



Natural Retirement by Years (tenured employees)

MATERIAL AGREEMENTS

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest, as detailed in Note 26 C 8 a to the financial statements. Accordingly the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For details regarding exemption in advance and indemnification of Directors and other Officers of the Bank, see Note 26 C 8 items B-H to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. Within this overall context, the “update, stages and determination of salary ceilings for new employees” agreement was signed in 2011. See “Developments in labor relations” under "Human resources” below.

Agreement for the sale of the operations of DBLA. On December 18, 2014, an agreement was signed for the sale of the operations of Discount Bank Latin America (DBLA). For additional details, see Note 15 D to the financial statements.

Agreement for the sale of the operations of IDB (Swiss) Bank. On November 23, 2015, IDB (Swiss) Bank signed an agreement for the sale of its customer operations. For additional details, see Note 15E to the financial statements.

Agreement for the purchase of the minority interest in Diners. On November 29, 2015, ICC and Diners entered into an agreement for the purchase of the entire holdings in Diners. For additional details, see Note 36A to the financial statements.

Arrangement replacing criminal proceedings. For details regarding the arrangement in lieu of criminal proceedings, signed in November 2016, between the economic department of the State Attorney Office and ICC, see Note 36 E.

Agreement for the acquisition of VISA Europe. For details regarding the agreement according to which VISA Inc. acquired the shares of VISA Europe held by the principal members, including the Bank and ICC, see Note 36 F.

RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

Rating determined for the Bank and some of its subsidiaries by different rating agencies

Rating given by	Subject of rating	Rating	Rating horizon	Date of rating/ ratification of rating
		Discount Bank		
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	December 20, 2016
	Subordinate capital notes[(1)]	il AA	Stable	December 20, 2016
	Upper tier 2 capital (Series 1)	il A+	Stable	December 20, 2016
	Hybrid tier 1 capital (Series "A")	il A	Stable	December 20, 2016
	Subordinated debt notes with a loss absorption mechanism	A+	Stable	December 27, 2016
Midroog	Long-term deposits	Aa1	Stable	October 18, 2016
	Short-term deposits	P-1		October 18, 2016
	Subordinate capital notes[(1)]	Aa2	Stable	October 18, 2016
	Subordinate capital notes (tier 1 capital)	A-1	Stable	October 18, 2016
	Subordinated debt notes with a loss absorption mechanism	A-1	Stable	December 26, 2016
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	December 20, 2016
The international rating agency Moody's	Long-term foreign currency deposits	Baa1	Stable	October 27, 2016
	Counterparties Risk Assessments	A-3		October 27, 2016
		Mercantile Discount Bank		
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	December 20, 2016 [(2)]
	Subordinate capital notes	il AA	Stable	December 20, 2016
		IDB New York		
Kroll Bond Rating agency	Deposits	A-	Stable	October 19, 2016

Footnotes:

(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.

(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

The international rating data for the State of Israel (long-term for bonds issued in foreign currency)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A-1	Stable
The international rating agency S&P	A+	Stable
The international rating agency Fitch	A+	Stable

* The data are taken from the website of the Accountant General at the Ministry of Finance.

ACTIVITY OF THE GROUP ACCORDING TO REGULATORY SEGMENTS OF OPERATION - ADDITIONAL DETAILS

HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS) - ADDITIONAL DETAILS

GENERAL

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 200 branches located all over the country, in addition to a variety of direct channels. The customers are classified into a number of customer populations according to their age, financial wealth and additional parameters.

GOALS AND BUSINESS STRATEGY

The Bank continued to implement in 2016, the strategic plan for the Group, approved in 2014, which had defined the household segment as one of the segments, on which the Group would focus in the coming years, as the central growth engine. The strategy relies on three principal layers: focus on the intensification of relations with existing customers of the Group; focus on growth products – private credit, and growth sectors – wealthy customers (at Discount Bank), customers of the Arab and Jewish Orthodox sectors (at MDB); and improvement of the retail infrastructure, which among other things includes the improvement of the service model and customer experience.
Several moves towards attaining the multi-annual goals were made in 2016:

- A comprehensive preparation has been made for the removal of the operating activity from the branches and for improving the efficiency of their work procedures, in order to divert the time to the improvement of service and sales to customers;
- Increasing availability – turning the personal service TeleBank into a backup center for online response at the branches. Calls by customers, following waiting at the branch, are transferred to the telephone center for service.
- Increasing the scope of initiative and sales as regards customers, on the basis of a comprehensive training provided to the staff of the branches, improving the sales systems on the basis of customer needs and computerized training systems;
- Positioning the TeleBank as a nationwide service and sales center – focusing on improving the response time to customers in general, combining value offers into incoming calls, and introduction of a sales center by means of initiated calls to all bank customers;
- Utilizing customer potential – by means of the establishment of approach strategy based on the modification of service and value offers to the customer.

POINTS OF EMPHASIS FOR THE COMING YEAR

In 2017, the Bank will continue to implement the new retail strategy, while focusing on a number of fields:

- The continued removal of the operating activity from the branches and the transfer thereof to the banking services center and concurrently, allowing more free time to bankers at the branch layout for the improvement of the service experience and deepening of activity and contact with customers;
- The continuing upgrading of the digital channels and diversion of activity to these channels;
- Addition of communication lines for customers – encoded mail and a communication application for correspondence with a banker;
- Deploying a CRM system for the upgrading of the management of communication with the customer;
- Upgrading the marketing effectiveness by means of value offers tailored to the customer's needs in all the channels;;
- The continued positioning of the Bank as a leader in the pension consulting field;
- The continued development and use of analytical models as a tool supporting decision making in the granting of credit;
- The continuing upgrading and improvement of service and responsiveness in the mortgage loan granting process.

SERVICE

General. The trend of modifying the value offers to customers forming a cluster in a family plan account, continued in 2016, while developing products and increasing the advantage of the family cluster.

A contact strategy has been absorbed, in accordance with the customer's life events, while focusing on custom and designated products for the household segment.

Banking products. The principal banking products available to customers of this segment include current account management, credit, deposits, capital market activity and credit card services, as well as loans for the purchase, lease, enlargement, renovation or construction of a residential unit, and the granting of loans for any purpose, secured by a mortgage on a residential unit.

Telebank - personal service. Customer telephone answering service - automatic direction to direct banking for customers calling the branch switchboard. The service enables to improve the quality of telephonic response and to afford the staff of the branch more time to create for the customer added value from the aspects of initiative and sales. A telephonic sales center on the TeleBank, principally focused on the private credit market, which was established in 2014, continued to expand during 2016, and was combined as an integral part of the personal service center.

Internet activity. Encouraging customers to use this lane that results in significantly lower costs as compared with the cost of identical services provided at the branches.

Internet loans. Private customers who comply with determined criteria, may apply for loans via the Internet.

Discount by cellular. A service based on cellular application enabling Internet access to the account, obtaining information and executing bank transactions by means of SMS/application at any place and at any time. Various services are provided to the customer, including obtaining support while surfing on the web.

CONSULTING LAYOUT

Investment centers. The Bank operates countrywide 9 investment centers and 5 extensions providing consultation services to customers holding assets with the Bank in an amount of over NIS 700 thousand, or to customers active on the capital market. The service is provided by expert investment consultants. Certain of the investment centers continued to provide in 2016 a wide overall service, consisting of designated pension consulting, reference to mortgage services provided by designated centers, and value offers with respect to retail credit, provided by specialized officers assisted by automatic credit systems.

Consulting services in Bank branches. Consultation services at the Bank Branches are provided by authorized investment consultants and are intended for customers holding assets with the Bank in amounts exceeding NIS 120 thousand. Consulted customers, holding assets with the Bank in amounts exceeding NIS 700 million, are also offered consulting services at the investment centers, as described below.

Pension advisory services. The Bank provides pension advisory services at the Bank's branches and investment centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self employed and salaried employees all over the country.

Portfolio management. Directing customers to outside and inhouse portfolio managers.

MARKETING AND DISTRIBUTION

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- At the branches - frontal activity through screens located in areas where customers await service;
- Through the telephone either by way of an initiated approach to the customer or in response to an approach by the customer;
- By Discount TeleBank - either by way of an initiated approach to the customer or in response to an approach by the customer;
- At the Discount website on the Internet and the Discount application on cellular phones, which provide marketing messages and marketing offers;
- Through the Discount automatic teller machine, by which marketing messages and marketing suggestions are being communicated;
- In the interactive voice response (IVR) system in the "Telebank", by means of marketing messages and marketing suggestions while the customer is waiting for service;

- Direct mailing to customers (to which is attached a statement of account) and through the automatic service machines (ATM and Information Desk).

DISCOUNT, THE BANK FOR THE FAMILY

The Bank offers its customers a unique plan in Israel, which is designed for existing and new customers who are related to one another. The idea is to connect several customers who are related to one another having different accounts, to the "Family Program" in the Bank's systems, and thus provide financial strength to the family cell.

Joining the program is simple and easy and is made possible by registering at the branch, at the TeleBank center and through the Bank's Internet site.

The connection to the family group grants the family members participating in the program, benefits, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.

The principal products of the program are:

- **Exemption from commission on money transfers** in Israeli currency between accounts of the family members participating in the program.
- **"Family plus"** – offsetting interest on overdrawn accounts against the accounts of the other family members. The program allows the customer to enjoy the setting off of interest charged on their overdraft so long as one or more family members participating in this benefit has at that time a credit balance on their current account, in accordance with the principles of the plan.
- "**2go key" card** –a rechargeable card in the name of the child provides parent security and control over expenses, as from the age of fourteen. An exemption from card fees to customers participating in the family program.
- **Saving for higher education** – a monthly saving for fifteen years with a gift from Discount Bank of deposits for one full year.
- **Family loan** – All purpose loans at preferential terms to members of the family program.
- **Family deposit** – A shekel deposit at preferential terms to members of the program.

Business Family - The program grants benefits to customers managing at Discount Bank their business account, private account and accounts of family members.

BANK BRANCHES

At the end of 2016, the Bank operated a country wide layout of 122 branches and extensions. This, following the Bank's closing down and merging 10 branches: the new Rehovot branch, The Drorim Branch at the Lev HaSharon Regional Council, the Hamasger Branch in Tel Aviv, the Oron Branch in Petah Tikva, Savyonim Branch in Yahud, Bait Vagan Branch in Jerusalem, the Yehudah Hamaccabi Branch in Tel Aviv, the Tel Aviv University Branch, the Haifa Main Branch and the "Discount Your Way" Branch at the Haifa Grand Mall. Mercantile Discount Bank ("MDB") operated 78 additional branches.

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. For additional details, see "Technological improvements and innovation" hereunder.

SERVICE CONCEPT

In 2016, the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products.

Conduct of the service is based on the following principles:

- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;

- One stop shop - A comprehensive service to the customer at one service point;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enables the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Service initiative - Forecasting customer needs, product adaptation and services;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- Easy and convenient communication with the Bank's customers through emails to the banker.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"DISCOUNT KEY"

In 2016, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount's credit cards (VISA CAL, Diners and MasterCard) enjoy discounts at over 120 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends.
Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.
The Bank launched the first private refueling card in Israel. This benefit enables private account holders, who own a credit card of the Bank, to order a private refueling card, free of charge, for use in SONOL gas stations.
In continuation to the "Discount is good for the family" move, the Bank introduced in June 2015 the "family key". "Family key" is a benefits plan designed for customers who are attached in their current accounts to the family plan and who hold the "Discount key" credit card of the Bank. Within the framework of this plan, holders of the "Family key" enjoy double or increased discounts at a variety of trading houses.

OPERATIONAL EFFICIENCY IN THE BRANCHES

The action for the removal of operational activity from the branches continued in 2016 alongside efficiency measures, improvement in procedures and a change in the concept of operation.
The activity was designed to achieve the following targets:

a. Removal from the branch of all operational activity not required for customer service;
b. Simplifying and shortening the remaining processes at the branch;
c. Focusing on the customer and his needs in order to improve the service experience;
d. Reducing the amount of paperwork and filing at the branch;
e. Efficiency in manpower and costs;
f. Reduction in office space at the branches.

All the Bank's branches have a self service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services and effecting payments. Approx. 60 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches.
The activity of removal from the branches of basic documents and their scanning was completed in 2016, in a manner that allows the business functions and head office units a computerized viewing of basic documents.
A move for transformation continued at the branches in 2016, within the framework of which a number of significant improvements are made to work procedures at the branches:
The central banking service continued to absorb operations from additional branches with a view of easing and adjusting the burden of work at the branches in favor of the focusing on service and initiatives. The operations of 75 branches were absorbed until the end of 2016, and those of the remaining Bank branches would be absorbed in 2017; the Bank continues the characterization of processes for greater efficiency within the framework of new models.

COMPETITION

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.

Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers focusing on differentiation and attracting customers by means of "Discount Family", by means of the branch layout;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

THE RETAIL SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

MDB views the retail segment in general, as well as the household segment in particular, as a central target of its business development and is diligently working on broadening its activity in the segment as well as improving the service to its customers.

MORTGAGE ACTIVITY

At the present time, the Bank operates 64 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.

The Bank operates two channels in the process of approving a mortgage, as follows:

- A direct approach channel to the mortgage loan officer at the branch;
- A direct channel - call center specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with approaches by customers seeking a new loan. Based on predetermined criteria, the customer is granted a preliminary stipulated approval for a loan, with the process being continued at a personal meeting with the customer at the branch;
  - Deferral of requests or, alternatively, scheduling meetings at branches for customers who do not comply with prescribed criteria;
  - Response to existing customer questions regarding ongoing loans.

Developments in the mortgage market

	For the year ended December 31		
	2016	2015	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	58,907	64,744	(9.0)
Loans from State funds	131	83	57.8

Details regarding new loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit

	For the year ended December 31,		
	2016	2015	
	In NIS millions		Change in %
From bank funds(1)	7,009	4,557	53.8
From Treasury funds (2)	8	5	-
Total of new loans	7,017	4,562	53.8
Recycled loans	503	1,230	(59.1)
Total	**7,520**	**5,792**	**30**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 128 million in 2016, compared to NIS 144 million in 2015
(2) Including standing loans in the amount of NIS 1.9 million in 2016, compared to NIS 2 in 2015.

Legislative restrictions and regulations

Circular of the Ministry of Finance in the matter of changes in the rules applying to assistance to qualified persons who do not own an apartment. A circular was published on April 20, 2016, which reduces the minimum number of points entitling qualified persons to financial assistance in purchasing an apartment and which defines the rate of interest payable on the entitling housing loan. The circular changed the mechanism for fixing the interest rate so that it would be determined according to the average rate of interest on housing credit in the CPI linked segment, minus a margin of 0.5%. The letter takes effect on May 15, 2016.

Directive of the Ministry of Housing and of the Ministry of Finance regarding assistance for the purchase of an apartment within the new housing purchase plan. A Directive was published on April 14, 2016, which defines the mechanism assisting qualified persons in the purchase of a single apartment, within the framework of a plan for price tenders for the purchasers. A qualified person, who is successful in the tender, would be entitled to apply to a banking corporation for a loan assisting him in purchasing the apartment from the contractor. The Directive imposes a ban on the sale of the apartment within five years from the date of taking possession thereof.

In this respect, the Bank of Israel issued on May 1, 2016, an amendment to Proper Conduct of Banking Business Directive No. 329, which allows the granting of a housing loan under the said plan for the purchaser, at a maximum financing ratio derived from the market value of the apartment based on an appraisal instead of its price in the purchase agreement. The purchaser will have to provide from his own resources an amount of at least NIS 100 thousand towards the purchase price.

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2015 Annual Report (pp. 469-471).

Developments in the mortgage market

The rise in activity on the housing mortgage loan market continued in 2016, though in volumes lower than in 2015. The volume of mortgage loans granted amounted to NIS 59 billion, compared with approx. NIS 65 billion in 2015, a decrease of approx. 9%.

The instructions by the Supervisor of Banks published during 2013-2015 have led to an increase in the average risk assets in the segment's activity.

In addition, the Supervisor has limited the loan component granted at a variable interest rate. Since its entering into effect, the instruction led to a shift from the variable interest option to fixed interest options. Such shift reduces the exposure of borrowers to changes in the monthly repayment amounts in the event of rising interest rates.

The rate of growth in the volume of the mortgage loan portfolio at the Bank in recent years was relatively low in relation to the sectorial growth. A change in this trend occurred in 2016, with a growth of the Bank's mortgage loan portfolio that is higher than that of the industry, this, with a view of increasing the Bank's share in the mortgage market, so that the Bank's market share in this segment would be similar to the Bank's share in the retail operating segment.

With the conclusion of the merger of Discount Mortgage Bank Ltd. with and into the Bank, the marketing of the "Subsidized mortgage" product ("Discount Outline") has been discontinued.

A continued increase has been observed since 2013 in the marginal credit spread.

The repayments of mortgage loans are, among other things, affected by the unemployment rate in the market and by housing prices. The volume of problematic debts declined in 2016, compared with 2014 and 2015.

Sectors of operation

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.

Multi purpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).

Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Approval of the individual mortgage files is conducted in designated branches, specifically defined for this purpose. A decline in the volume of these operations has been recorded at the Bank in recent years.

Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank’s and MDB's telephone services, respectively.

Business strategy

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.

Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations has been approved, which defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.

The Bank operates a rating model, used in the approval of the transaction and its pricing.

Additional details regarding the mortgage portfolio of the Discount Group and the risks inherent therein

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

Competition

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.

The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans, making processes more efficient, and providing preference service to segments of customers. Furthermore, the Bank is preparing for upgrading its systems in respect of interest spread management, with a view of improving the reaction time to customers' new mortgage loan applications. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

GENERAL

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.
Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter : "private banking customers").
Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah Pituach, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
For details regarding the overseas activities of this segment, see below "International activity".

STRATEGIC EMPHASES

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants; and the private banking department, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to serve foreign residents with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by a customer relations manager responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. At the beginning of the year, the Bank adopted a risk based policy regarding foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts, and has immediately started the implementation of this policy with respect to the relevant group of customers. In addition, the risk management unit at the customer assets division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

SERVICE TO CUSTOMERS

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.
Customers of this sector enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
The private banking provides service to customers six days per week. The private banking centers in Herzliyah and Haifa and Tel Aviv operate from 8 AM to 8 PM, in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.

In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.

Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.

A product initiation unit acts to create unique products suitable for this segment of customers.

The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

DEVELOPMENT IN THE SEGMENT'S MARKETS AND COMPETITION

The year 2016 was also typified by continued competition in the private banking field, in the field of prices and commissions and in the level of service to customers. Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth, whether by a direct approach from abroad or through their local extensions.

DISCOUNT INVEST

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.

"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.

The service also includes foreign securities operations on the U.S. Stock Exchanges.

Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 20:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.

Customers having investments in amounts of between NIS 500 thousand and NIS 4 million, obtain services from nine countrywide investment centers and five extensions, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.

An additional innovation relates to the pricing of commissions. Customers of the investment centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.

Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.

Alongside the above, the Bank has upgraded the service for all types of mobile telephones. The application installed by Discount is adapted to the Blackberry, Android and IPhone and versions and enables the receipt of information and the execution of capital market operations. In addition, customers can enjoy the "Discount SMS" service, which provides information regarding market indices at the end of trading.

SMALL AND MINUTE BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

GENERAL

The small business segment provides services and diverse financial products to small business customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 200 branches located all over the country, in addition to a variety of direct channels.

GOALS AND BUSINESS STRATEGY

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the small business segment as one of the segments in focus, on which the Group would focus in the coming years, as the central growth engine. The new strategy relies on the focusing on the intensification of relations with existing customers of the Group, alongside a growth in the market share of this segment. Activity in 2016 was based on the implementation of the strategic plan, while emphasizing the automatization of credit processes in the small business segment, among customers having a debt of less than NIS 1 million. The focusing by the segment continued in 2016, with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.

POINTS OF EMPHASIS FOR THE COMING YEAR

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers whishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Customizing the sale of unique products to the segment’s customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on the designated website for customers of this segment – "Business +";
- Increasing the use of models analyzing the activity of the segment's customers (the "red lights" system);
- Increasing the advertising in the small businesses field, both on the Bank`s website and facebook page and in the media and in customer conferences;
- Approaching attractive business segments of population, which are not satisfied by the response received at other banks.

COMPETITION

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies as well as by designated private companies financing specific operations, such as: the purchase of vehicles, equipment or import activity. The Bank’s principal methods to cope with competition include timely response to customers’ requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

SERVICE TO SEGMENT CUSTOMERS

The small business segment provides the full variety of services to the segments' customers. Service is provided at the Bank branches, except for foreign trade services. Customers also have the option receiving service by way of a designated Internet website or cellular application as well as by telephone.

Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").

Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to NIS 15 million and indebtedness of up to NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.

Financing of small businesses. As part of the Bank's policy of focusing on operations in this segment, existing customers of the Bank are being offered two financing lanes, while two additional lanes are being offered to new customers. This, in the framework of four funds for the financing of small businesses. The total financing per customer offered by the fund, may reach NIS 1.25 million, including reduced collateral requirements. Operations in this field were enlarged during 2016, and the Bank granted finance of this type to hundreds of small businesses in geographical and sectorial distribution.

Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.

Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.

SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.

"Business family". The "Business family" program takes the "Discount family" program one step forward by granting also to business account customers, benefits by joining the program. Customers enjoy the family and business position and receives benefits from both worlds.

THE SMALL BUSINESS SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.

Small Business Fund. The Ministry of Finance informed the Bank on January 17, 2016, of its decision to accept the offer of MDB (and its institutional partner), as one of the winners in the tender. The maximum volume of credit, which the Bank (jointly with the institutional body) would be able to grant customers within the framework of this tender, amounts to NIS 650 million. In the course of 2016, MDB granted loans to its customers within the framework of the Fund (in participation with the institutional body), the balance of which, at December 31, 2016, amounted to NIS 190 million.

MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS) - ADDITIONAL DETAILS

SERVICE TO SEGMENT CUSTOMERS

Customers of the group's middle-market segment are medium size business customers. These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers countrywide, geographically covering the five operating regions of the Bank: Jerusalem and the South, Tel Aviv, Sharon, The North and the Lowlands.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers, a focused activity is being conducted introducing suitable customers to this dealing room. This dealing room provide purchase and conversion of foreign currency services and performing hedge transactions.

In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

DEVELOPMENTS IN THE SEGMENT'S MARKETS

The main activities of the segment customers are conducted on the local market in the following economic sectors: commerce and services, industry, construction and real estate. Customers of this segment are in general companies with an average scale of operations, mostly in the domestic market. A part of the segment's customers conduct also import and export business.

The segment's customers were effected by the relatively high growth rate, compared to the previous year. Growth was made possible due to the high growth of private consumption.

ANTICIPATED DEVELOPMENTS IN THE COMING YEAR

The Bank estimates that only a mild growth is expected compared to 2016, with a recovery in the export of goods and the continuing growth in private consumption. Notwithstanding, the uncertainty is high and is affected, among other things, by the global economic condition and the security situation in Israel. In view of that stated, an increase is expected in bank credit to the commercial sector, financing both working capital and investments, and are for financing investments.

COMPETITION

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions (loans granted by institutional bodies and off-banking credit companies). The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS) – ADDITIONAL DETAILS

REVIEW OF DEVELOPMENTS IN THE CORPORATE BANKING SEGMENT IN 2016

The domestic economy expanded in 2016 at a fast rate of 4%, acceleration in relation to the growth of 2.5% in 2015. Concurrently, the business product grew by 4.1% compared with 2.3% in 2015.

Following are the factors which affected the development of the business product in 2016:

- A growth in exports (excluding diamonds and startup companies) at a rate of 1.4%, following a contraction of 2.7% in 2015. The said growth reflected a a fast expansion in the export of services and a decline in industrial exports;
- Private consumption continued its fast expansion trend, accelerating from 4.3% in 2015 to 6.3% in 2016. The said acceleration reflected a steep rise (approx. 20%) in the consumption of durable goods, in view of the exceptional rise in the import of motor vehicles, alongside a rapid growth in current consumption;
- Investments in fixed assets (excluding ships and aircraft) recorded an accelerated growth (10.7%), on the background of the rapid growth in investment in economic sectors (12.8%), mostly due to the giant investment by "Intel" Company in the construction of a new plant in Kiriyat Gat, and the accelerated import of private motor vehicles. In addition a rapid growth was recorded in housing construction (approx. 9%);

  Public consumption (excluding defense imports) grew in 2016 by a rate of 3.6% (3.3% in 2015), with a relatively fast growth in the civilian consumption;
- Import of goods and services (excluding defense import, ships, aircraft and diamonds) recorded a steep growth of 8.2% (1.4% in 2015), while import data indicate a rapid growth in the import of civilian goods as well as in the import of services.

DEVELOPMENTS IN THE DEBT OF THE CORPORATE BANKING SEGMENT

During 2016, an increase of 4.1% was recorded in the debt of the business sector (excluding banks and insurance companies). The rates of change are in nominal terms, and are affected by changes in the exchange rates and in the CPI. The balance of the debt at the end of 2016 stood at NIS 848 billion, compared with NIS 814 billion at the end of 2015. The rise in the debt during the year reflected a moderate growth of 1% in the debts to banks (including corporate bonds), 1.7% in the debt to foreign residents, 7.1% in the debt to institutional bodies and a sharp growth of approx. 17% in the debt of the business sector to households. It is noted that the debt to banks at the end of 2016 totaled NIS 408 billion. The debt to institutional bodies continued to grow at a fast rate, reflected both in private loans and in marketable bonds approx. 19% and approx. 11%, respectively. As a result thereof, the weight of the debt to banks out of the total debt of the business sector continued to diminish, amounting at the end of December 2016 to 47.2%, compared to 48.6% at the end of 2015.

Funds raised by the issue of corporate bonds in 2016 (both marketable and nonmarketable, excluding the financial sector) amounted to NIS 43.1 billion, compared with NIS 29.9 billion in 2015.

The margin between corporate bonds (included in the Tel-Bond 60) and government bonds at the end of December 2016 was 1.19%, compared to 1.23% at the end of 2015 and 1.2% at the end of the third quarter of 2016.

DEVELOPMENTS IN SEGMENT MARKETS

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. 2016 was characterized by the continued weakness in the industrial sector, reflected in low production levels and weakness in exports. Exports were adversely affected by the strengthening of the shekel. The three principal trading currencies weakened as against the shekel, the U.S. dollar was devalued by 1.7%, the Euro by 5.3% and the Pound Sterling by 18%. Notwithstanding the above, the purchasing managers' index for the last few months of the year indicated a certain measure of optimism, when in the last three months of 2016 the index indicated an expansion trend;
- Diamonds – The weakness in the activity of the sector continued in 2016 as a result of weak market conditions. The export of polished diamonds declined significantly, as part of the decline in exports felt throughout the industry. The decline in exports stemmed from the global decline in demand in view of the economic situation on the background of the slowdown in growth of the target markets. Nevertheless, the fourth quarter recorded early signs of recovery in the volume of operations in the sector;
- The tourism sector – The sector indicates signs of slow recovery, with an improvement in hotel room occupancy, an increase in the entry of tourists, and supported by a Government plan of decreasing regulation in this sector. Tourist entry into Israel did not revert to the level existing prior to the "Protective Edge" operation, and the sector continues to rely on internal tourism;
- Commercial sector – This sector is being affected mostly, by domestic demand, when in the first nine months of 2016 private consumption increased by an annualized rate of 3.0%, a more moderate rate than that recorded in the first half of the year. However, the turnover indices in the retail trade indicate a growth of 4%;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS

The Bank of Israel estimates that the Israeli economy would grow in 2017 by a rate of 3.1% (a positive update compared to the previous forecast). This update stems, mostly, from a higher forecast as to private and public consumption. The Bank of Israel estimates that exports in 2017 are expected to recover and grow by 3.9%, inter alia, as a result of the growth in electronic components exports and following the support provided by the recovery in global trade.

According to the IMF, the global economic growth forecast remained stable for 2017, and it is estimated that the growth would expand by 3.4%, following a growth of 3.1% in 2016. A growth of 3.6% is also expected in 2018. The Fund is expecting a growth in global trade in 2017 at the rate of 3.8%, following a more moderate growth of 1.9% in 2016. The above mentioned growth rates are expected to support the growth in Israeli exports.

REACHING TARGETS AND BUSINESS STRATEGY – 2016

In the course of 2016 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.

In addition, in 2016 the Bank focused on syndication transactions and capital mitigation, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.

The Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

TARGETS AND BUSINESS STRATEGY

In 2017, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.

Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2017:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (populations, targets, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2016". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. Following the amendment of the instruction of June 2015, the restriction on indebtedness of a banking group of borrowers was reduced from 25% to 15% of the equity. The amendment is in effect since January 1, 2016, and thereafter. Following the said amendment, the definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. It has been prescribed as a transitional instruction, that the calculation of capital shall include the Tier 2 capital as of December 31, 2015, which shall be reduced as from January 1, 2016, by one-twelfth in each quarter, until its elimination on December 31, 2018. As of December 31, 2016 no deviations existed to the limitations as set in the directive.

Starting with the 2012 annual report, the Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. 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.

The limitation on "related parties". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2016, there were no deviations from the said limitations.

SERVICE TO SEGMENT CUSTOMERS

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.

The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. The Branch has extensions in Jerusalem and in Haifa.

Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking.

The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.

Customers engaged in international trade are being served by the foreign trade department (for additional details, see below).

The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.

Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

FOREIGN TRADE OPERATIONS

General. The foreign trade department operates within the framework of the Bank's Corporate Division, and offers a range of services to customers from the various business segments engaged in international trade.

Scale of operations. According to data issued by the Central Bureau of Statistics, the import of commodities amounted in 2016 to US$65.1 billion. Excluding ships, aircraft, diamonds and energy materials, total imports in this period amounted to US$52.2 billion, a growth of 10% compared to 2015. The import of investment, consumption and raw materials products recorded an increase of 35%, 12% and 1%, respectively. The import of energy products recorded a decline of 21%, explained mostly by a decline in import prices to Israel. The growth in the import of raw materials (excluding diamonds and energy), stemmed to a large extent from an increase in imports of raw materials for the machine and electronics industries, alongside a growth in import of raw food products, rubber and plastics. On the other hand, the import of raw materials was adversely effected by the decline in the import of chemicals (mostly on the background of falling prices). Growth was recorded in the import of all classes of consumable goods.

A steep growth was recorded in the reviewed period in the import of motor vehicles for private consumption (61%), and in addition, a growth was recorded in the import of goods for current consumption (7%), alongside a moderate growth only in other durable goods (2%).

The export of goods amounted in 2016 to US$52 billion, industrial exports (including mining and quarries except for diamonds) comprising 84% of total exports, the export of diamonds – 14% and agricultural exports 2%.

Total exports in the market in this period (excluding diamonds) amounted to US$44.6 billion, a decline of 3.8% as compared with 2015. The decline related to all classes of goods. Industrial exports recorded a steep decline of 3.8% and agricultural exports declined by 3%.

The business activity of the foreign trade department coordinates in each department all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.) and in 2015, the Bank has strengthened its positioning and place as regards complex transactions in the foreign trade field. The foreign trade department continued in 2016 its intensive activity in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.
The marketing activity for increasing the customer base using foreign trade services was successfully carried out in 2016 and increasing the share of their operations on the Internet. Following this, the rate of transactions performed online increased to 51% of all transactions.
Technological improvements. A multiannual plan was structured for the implementation of technological improvements in supporting systems, which are expected to bring about an improvement in customer service.

CHANGES IN CUSTOMER CHARACTERIZATION

The large customers and the large borrower groups in the economy form a substantial part of the Bank’s corporate customer portfolio.
The commercial credit portfolio includes exposure to holding companies, the credit that had been granted to serve to finance domestic or foreign operations. The risk profile of these companies at market level, increased in the recent year, when several of the major holding companies were unable to honor their liabilities and were forced to reach a debt arrangement with the holders of bonds issued by them (the same doubt exists with respect to other companies, which is reflected in the level of return on their bonds).
Following the growth in the risk profile of holding companies active on the domestic and or overseas markets, the Bank reduced the credit granted to them by way of transferring the credit to their operational subsidiaries, transfer to credit in amortization backing-up the loan by reasonable local collateral, and avoiding the granting of credit to companies mostly operating abroad.

SUBSTITUTES FOR PRODUCTS AND SERVICES OF THE SEGMENT AND CHANGES THEREIN

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities.
In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

PRODUCTS AND SERVICES

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

CONSTRUCTION AND REAL ESTATE ACTIVITY

Market developments

Residential construction. The year 2016 was characterized by high demand for residential units, which led to the continuing rise in housing prices. Notwithstanding the above, a certain moderation in the demand for residential units is noted in recent months, as reflected, inter alia, in the lower demand for mortgages in comparison with the high volume of mortgages experienced in 2015, on the background of the rise in mortgage interest rates, allocation of land by the State, principally for "Mechir Lamishtaken" (Price for the house buyer) projects, and the increase in tax burden on investors.

Income generating real-estate for office buildings. The office premises market maintained in 2016 stability in occupancy rates and in rental prices.

Income generating real-estate commercial buildings. The commercial real estate market maintained the stability in occupancy rates and in rental prices, relying on positive private consumption data. Nevertheless, additional planned construction in significant scope may lead to saturation, particularly in areas abundant with commercial areas. Corporations in this field operate to improve and expand existing properties and are looking for new growth generators, such as online trading platforms and more.

Infrastructure. The year 2016 saw a recovery in the volume of investments in the infrastructure sector, when, inter alia, may be mentioned significant investments in transportation infrastructure, with a focus on public transportation, improvement of the railway infrastructure and the construction of the light railway in the Dan Metropolitan Area. In addition, the final approval of the natural gas layout led to a new recovery in the natural gas field.

Developments in the financing resources of the Activities

Bonds. The year 2016 saw a moderate increase in the scope of issue of corporate bonds by corporations of this sector, compared with prior years. The volume of funds raised by the real estate sector comprised approx. 33% of the total funds raised in 2016.

Competition on the part of the institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has materially increased. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

Expected developments in the activity

Residential construction. The Government is expected to continue its involvement in the housing market in 2017, mainly through the marketing of the "Mechir Lamishtaken" (Price for the house buyer) tenders in peripheral areas and actions leading to the reduction in advisability for investors, by means of the Third Apartment Tax Act, which entered into effect at the beginning of 2017. Likewise, the State acts to increase the scope of planning activity as well as importing foreign labor for the construction sector.

Office and commercial income generating real estate. With the entry into the market in 2017 of a large volume of new office and commercial properties, most of which in demand areas, excess supply might occur leading to a decline in rental prices in certain areas.

Leading commercial centers in central locations are expected to maintain stable occupancy rates. In contrast, a drop in occupancy rates might evolve in commercial centers of weak characteristics or in competition in the occupancy rates and in turnover.

Infrastructure. The development plan of the Leviatan natural gas field has been approved, and also on the agenda is the development of the Tanin and Carish natural gas fields, which are expected to increase activity in this sector. Furthermore, the transportation field, and in particular the railway field, is expected to attract investments of a high volume in the coming years.

Directions of business development in the markets Activities

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:

- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

Credit policy in the construction and real estate activity

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.

The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

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, a limitation applies to industry 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 rate of Bank’s exposure as regards credit to the construction and real-estate industry as of December 31, 2016 reached a rate of 17.2% (19.56% at the end of 2015).

Service to customers of the segment

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition the financing operations of the segment are also conducted by business managers at the large corporations department, mainly with income producing real estate holding corporations, as well as by means of the business centers of the Banking Division.

Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method). The unit engages in allocating appropriate finance packages though at smaller volumes.

MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

Alternatives to products and services of the operations and changes therein

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.

In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

Structure of the competition prevailing in the operations and changes therein

Competition exists in this sector both on the part of banking corporations and on the part of institutional bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Certain of the institutional bodies have even extended their activity to granting Sales Act guarantees to purchasers of residential units.

Coping with competition

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.

Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

Products and services

The services provided include, among other: credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS) - ADDITIONAL DETAILS

CONDENSED DESCRIPTION OF THE CHARACTERISTICS OF THE SEGMENT

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (through mutual funds and ETN's).

AREAS OF OPERATION

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, mutual funds and ETN managers. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

COMPETITION

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years. Moreover, the trend is increasing of trading on overseas markets through foreign bodies (which provide also securities custodian services) as an alternative to Israeli banks.

A COMPETITIVE PROCESS

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

OPERATING SERVICES

At the present time, the Bank does not provide operating services to institutional bodies.

FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS) - ADDITIONAL DETAILS

DEALING ROOM

The dealing room is available to customers and to the Bank's branches and provides personal and professional service in the global money and capital markets and in the implementation of special transactions in foreign exchange, interest rates and securities. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. Combining the said areas of operation, allows customers to obtain all commercial services under one station providing a standard of service and of professional level.

The dealing room is engaged in two principal areas of activity:

OVER THE COUNTER (OTC) TRADING – FOREIGN CURRENCY AND INTEREST RATE TRADING

The OTC unit develops and modifies various transactions to customer needs, in particular with respect to hedge and market risk requirements. The unit is a central "market maker" in the dollar/shekel trading; when the dealing room enters into a transaction with a customer, the dealing room becomes the counterparty to the transaction and in respect thereof bears market, credit and operating risks.

The principal transactions which the unit offers customers are: purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives as required by the customer. The Bank serves as a central market maker in government bonds (linked and shekel). The Bank trades in these bonds on behalf of Bank customers for the purpose of hedging risk and for investment.

TRADING IN SECURITIES

The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments. Following are details regarding the lines of trading operations in securities at the two desks:

Foreign securities. The foreign securities desk is active in a large variety of equity and financial markets worldwide, utilizing complex financial instruments and offering a wide range of instruments: trading in shares on foreign markets, trading in options, in Government bonds and in corporate bonds, mutual funds and hedge funds, and in arbitration activity.

Brokerage regarding Israeli securities: The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded on the Tel Aviv Stock Exchange. The desk provides brokerage services involving both marketable and non-marketable securities through brokering deals for customers (matching transactions), carries out transactions on behalf of customers (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

GLOBAL TREASURY

The GT Unit was established in 2015 with the aim of centralizing the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, interest risk and the currency and linkage segments exposures, as well as for managing the investment portfolios, managing the capital and managing the exposure and the contacts with financial institutions. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance to the ALM, investment and capital managementunits at the subsidiaries.

ASSETS AND LIABILITY MANAGEMENT (ALM)

The main areas of activity in the management of assets and liabilities are the management of liquidity, management of exposure to interest risks inherent in the balance sheet, management of linkage and currency risks, management of the available-for-sale securities portfolio, determination of transfer prices and management of the financial spread.

Liquidity risk management. Liquidity risk management is performed using internal and regulatory models (Liquidity Coverage Ratio), from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of ongoing analysis of trends in the mix and the volume of the Bank's credit and assets and liabilities.

Short-term liquidity and deposits. The asset and liability management unit operates a liquidity desk dealing with the short-term liquidity of the Bank (up to one month) in Shekel and in foreign currency, through Bank of Israel tenders, deposits and swap transactions. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency. The desk endeavors to invest the liquidity surplus in every currency and at each point of time.

Linkage base and interest rate exposure management. Measuring market risk exposure in the Bank's balance sheet is done by means of a designated computer system, which downloads information from all operational systems at the Bank. The asset and liability management committee, headed by the President & CEO, determines the levels of exposure to interest rate risk at the various linkage segments within the framework of limits determined by the Board of Directors regarding the risk appetite.

Transfer prices and management of the marginal financial spread. The Assets and Liabilities Management computes on a daily basis the Bank's internal transfer prices for credit and for deposits. The transfer prices serve as a basis for computing the profitability of all credit and deposit transactions made at the Bank. The prices are updated in accordance with developments in the money and capital markets. The asset and liability management group determines the targets of the marginal spread for deposits and credit and monitors them on an ongoing basis.

Interest tables. The asset and liability management unit is responsible for the production and publication of deposit interest tables.

Development of financial models. The Assets and Liabilities Management is responsible for the maintenance of the models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, exit points, early repayment forecasts for mortgages and more.

INVESTMENT MANAGEMENT (NOSTRO)

The Nostro Unit is responsible for managing the investments that have inherent credit risk – corporate bonds and government bonds.

MANAGING THE CAPITAL

The responsibility for managing the capital includes formulating a recommendation for the Management and the Board of Directors regarding capital ratio targets, formation of a framework for growth in business activity that will enable reaching the Bank’s capital targets, the allocation of the risk asset budget to companies in the Group and to the business units and the monitoring of current operations. Several factors in the Bank and in the Group participate in this process. In addition, the GT is responsible for the raising of funds on the capital market to the extent required.

NOSTRO MANAGEMENT

"Nostro" portfolio management policy. The "Nostro" portfolios of the Bank and of subsidiary companies are being managed with an overall view, with the aim of maximizing interest income, subject to limitations determined by the Bank`s Board of Directors and the Boards of the subsidiary companies.

The Bank`s "Nostro" Unit is subject to the decisions of its investment committee and to frameworks determined by the Bank`s Board of Directors.

The surplus liquidity balances related to the investment portfolio of the Group, are being managed through the management of the investment portfolio by the "Nostro" Unit. The investment activity of the subsidiary companies, in particular, IDB New York, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank.

COMPETITION

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

BUSINESS STRATEGY AND TARGETS

The targets set for the segment for the year 2017, comprise mostly the maintenance of an adequate level of profitability, while maintaining a risk level in accordance with the risk appetite of the Bank, despite a low interest environment and a challenging macro-economic environment.

The goal of the dealing room is to widen the distribution between income from customers and income from position management, while extending the controls circles.

INVESTMENTS IN NON-FINANCIAL COMPANIES

Policy regarding non-financial investments

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank`s Board of Directors prior to their execution.

Legislative and regulatory limitations and special constraints applicable to the investments operations

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -

(1) Up to fifteen per cent of its capital - in any non-financial corporation;

(2) Up to a further five per cent of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;

(3) Up to a further five per cent of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.

As of December 31, 2016, the Bank was far from reaching the limitation.

Principal areas of operation

The investments of the Discount Group in non-financial companies are divided into two principal categories, as under:

- **Investment in private equity funds and in venture capital funds.** The activity in this field is made primarily through the subsidiary Discount Capital (formerly known as: "Israel Discount Capital Markets and Investments Ltd."), directly by the Bank itself and through the subsidiary of MDB;
- **Investments in companies** (see hereunder).

Investments of the Group in private equity funds and in venture capital funds

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2016*		
Fimi Opportunity II	293	50	44.3	-	Private Equity Fund. According to a letter from the management of the Fund, no further "calls" will be made.
Fimi Opportunity IV	509	50	41.3	-	Private Equity Fund. According to the Fund's letter, there will be no further "calls".
FIMI Opportunity V	822	70	54.5	15.5	Private Equity Fund.
Fimi Opportunity VI	1,100	70	2.5	67.5	Private Equity Fund
Vertex Israel II Fund	160	15	15	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel III Fund	174	13.5	13.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel IV Fund	140	5	1.2	3.8	A venture capital fund.
Fortissimo Fund	78	5	4.3	0.7	Turn around fund to technology based mature companies.
Fortissimo II Fund	110	20	18.8	1.2	Private Equity Fund. "Turn around" fund for technology based developed companies.
Fortissimo III Fund	265	10	8.8	1.2	A private equity fund for technology and industrial companies with a growth potential which are at an "inflection point".
Plenus Venture Lending II Fund	55	5	4.9	0.1	Venture lending of the Dovrat Group, which engages in the granting of loans and credit facilities to technology companies.

Investments of the Group in private equity funds and in venture capital funds (continued)

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2016*		
Plenus Venture Lending III Fund	120	15	15	-	A venture lending fund of the Dovrat Group, and is engaged in granting loans and credit facilities to technology companies.
Stage One Ventures Capital Fund II	65	5	1.6	3.4	A venture capital fund engaged in investments in the communications and IT fields.
Investor club "Israel Growth Partners" (IGP)	223	6	10.3(1)	3	Investor club which focuses on investments in technology companies being in a growth stage. The investment in the club will be composed of a commitment to invest and of a co-investment option.
AMI Opportunities	217	10	1.4	8.6	Private Equity Fund of the APAX Group expected to operate principally in Israel.
Sky III	200	20	-	20	Private Equity Fund.
Edmond de Rothschild Europportunities	Euro 100 million	Euro 11.3 million	Euro 10.6 million	Euro 0.7 million	Private Equity Fund of the Rothschild Group.
Apax Europe VII	Euro 11 billion	Euro 7.4 million	Euro 7.3 million	Euro 0.1 million	A European private equity fund in the Apax Group, and is expected to operate mainly in Europe.
Brack Capital Group real estate fund	109	5	5	-	At inception directed its investments towards real estate projects in India and China. Following the global crisis, the fund has changed its investment policy and now focuses on investments in the USA and Canada.
European realestate fund	Euro 416 million	Euro 10 million	Euro 9.6 million	Euro 0.4 million	Managed by the French AXA group.
Carmel Software Fund	171	0.5	0.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vitalife Fund	50.3	10	10	-	Discount Capital has initiated the establishment of the fund, which specialized in investments in the bio-science field. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Alon Fund	30	2	2	-	Invested in late stage technology companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Golden Gate Bridge Fund	6	2	1.7	-	The fund engages in providing bridge financing for hi-tech start-up companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.

* The amounts are presented in U.S. dollars, unless otherwise stated.

(1) Of which an amount of US$7.3 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability

The outstanding balance of Discount Capital's investments in venture capital funds and in private equity funds amounted on December 31, 2016 to US$164 million. As of that date, the balance of Discount Capital's investments in venture capital funds and in private equity funds amounted to US$131 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.

Realizations. In 2016 Discount Capital has recognized income in the total amount of NIS 63 million in respect of withdrawals from the funds, mostly, in respect of FIMI II (NIS 36 million), FIMI IV (NIS 11 million) and FIMI V (NIS 8 million), compared with income of NIS 57 million in 2015.

Investments in corporations

As part of investments in corporations several investments in several companies were made. The outstanding balance of the investments of Discount Capital in corporations amounted as of December 31, 2016, to NIS 213 million. Following is a summary description of the principal investments:

Investment in Super-Pharm. Discount Capital holds 10.4% of the share capital of Super-Pharm Israel Ltd. ("Super-Pharm"), acquired in

2013, in the amount of approx. NIS 150 million. Super-Pharm owns a chain of stores marketing pharmaceutical and pharma products, cosmetics and toiletries in Israel, Poland and China. In total Super-Pharm operates 220 stores in Israel and over 60 stores in Poland and China. Discount Capital recorded dividend income of NIS 3 million in 2016, compared with NIS 5 million in 2015.

Investment in "Menif" - Financial Services Ltd. Discount Capital owns approx. 19.6% of the equity of Menif. Menif engages in complementing equity capital of building contractors as required by banks financing building projects in a closed project format. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. For details regarding guarantees provided by Discount Capital, see Note 26 C 16 (b).

Investment in affiliated companies. Discount Capital holds two companies acquired in the amount of approx. NIS 45 million. Profit recorded in respect to affiliated companies amounted to NIS 7.7 million, compared with NIS 0.7 million in 2015.

Additional investments. Discount Capital is studying additional investments with a view of diversifying its sources of income.

Investment in "dividend paying shares". The Bank's Board of Directors and the Board of Discount Capital have approved in the past a plan for investment in dividend paying shares. All dividend shares were realized during 2015, and there is no intention to make additional investments within the framework of this plan.

INTERNATIONAL OPERATIONS SEGMENT - ADDITIONAL DETAILS

GENERAL

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE INTERNATIONAL OPERATIONS

The principal restrictions applicable to the international operations are briefly described below:

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 December 31, 2016, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 17.35% of total risk assets, as compared with 18.37% on December 31, 2015. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 25% on December 31, 2015). The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

IDB New York - Risk Based and Leverage Capital Ratios. 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 in July 2013 (the “Basel III Capital Rules”). The new rules establish a new comprehensive capital framework for U.S. banking organizations.

The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a “capital conservation buffer”, consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.

The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios as of January 1, 2016 are as follows:

- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

Overseas regulatory supervision. Operations of the international segment are subject to supervision on the part of the appropriate authority in the country in question.

U.S. legislation. The supervisory authorities in the United States issued on December 10, 2013, the final rules relating to investment portfolios of banks ("Nostro"), as determined in the Dodd Frank Act ("Volcker rule"), and a period of preparation for their implementation has been granted. IDB New York is preparing for the implementation of the relevant parts in the instruction.

Guidelines of the Supervisor of Banks. During the past year, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB New York is preparing for the implementation of these guidelines with modifications required by the local laws applying to it. For further details regarding the guidelines, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

TAXATION

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Rubik Tax Agreement. Two international treaties entered into effect as from 2013 – a treaty between Switzerland and Great Britain and a treaty between Switzerland and Austria. These treaties regulate (both in respect of the past and in respect to the future) the taxation treatment of income and capital gains earned on financial investments at Swiss banks performed by residents of the said countries, who had elected to remain anonymous, and which preserves the protection of privacy in Switzerland.

Where account holders would wish to declare their financial investments and pay the relevant taxes directly and personally, the banks, with the consent of the account holders, shall provide the details of their accounts to the tax authorities of their countries of residence.

SERVICE TO SEGMENT CUSTOMERS

America. IDB New York ("IDB Bank") is the largest of the Israeli banks operating overseas.

This bank maintains four branches in the New York area, one branch in Florida and two branches in California.

SERVICES AND PRINCIPAL PRODUCTS OF IDB NEW YORK

Credit. IDB New York provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.

Middle Market. IDB New York grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.

Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.

Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.

Private Banking. IDB New York provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.

At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, including the granting of housing mortgages and products and services of IDB Capital, as subsidiary of IDB New York, engaged in securities transactions and insurance products in behalf of customers.

CREDIT CARD OPERATIONS

STRUCTURE OF THE FIELD OF OPERATION

The credit card is issued to the customer by the credit card company and the customer uses it for payment, as an alternative for cash or checks.
As estimated by ICC, 90% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2.0 cards in their possession. ICC estimates the number of cards in Israel at December 31, 2016 was 10 million. Furthermore, some 80 thousand trading houses and marketing chains in Israel allow purchases using credit cards.
Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.
The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission".
This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.

THE OPERATIONS OF ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions.
ICC issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement exclusively with ICC.
In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards under two routes: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the full credit risk involved with the card; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.
ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.
ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and “Isracard” credit cards (in Israel only).
In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.

Quantitative data regarding the activity of ICC

	December 31, 2016		December 31, 2015	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,537	1,316	1,454	1,247
Off-banking cards	924	653	876	616
Total	**2,461**	**1,969**	**2,330**	**1,863**

Transactions turnover

	For the year ended December 31, 2016	For the year ended December 31, 2015
	in NIS millions	
Bank cards	55,836	51,835
Off-banking cards	16,548	14,803
Total	**72,384**	**66,638**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

REGULATIONS, LEGISLATION AND ARRANGEMENTS

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Antitrust Commissioner. The Antitrust Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.

Proper Conduct of Banking Business Directives dealing with regulating the clearing sector. On May 1, 2016, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 472, in the matter of “clearing agents and clearing charge card transactions”. The directive’s aim is to regulate, in a targeted manner, the activity of financial bodies that will be granted a clearing license from the Governor of the Bank of Israel. The directive outlines the principal rules for activity related to the clearing of charge card transactions. According to the explanatory notes, the directive is based, inter alia, on overseas regulation in this field and is intended to lighten the regulatory requirements imposed thus far on those who operate in the clearing field.

Strengthening Competition and Reducing Concentration and Conflicts of Interest in the Israeli Banking Industry, (legislation amendments) act, 2017. For details, see "Legislation and Supervision" below.

Implementation of the EMV standard and distribution of immediate charge (debit) cards in Israel. On June 29, 2015, the Banking Supervision Department issued a circular amending Proper Conduct of Banking Business Directive No. 470 dealing with charge cards. The circular prescribes that, with effect from January 2016, the “Ashrayit EMV” protocol will be activated by Automated Banking Services Ltd. (“ABS”) for the approval and acquisition of transactions conducted at smart terminals. This will take place as part of the transition of the payments layout in Israel to the EMV (Europay MasterCard Visa) standard. The EMV standard is an assemblage of items developed by the international credit card organizations for the purpose of providing a uniform and secure format for charge card payment transactions.

As part of the circular, the chapter “Immediate Charge Cards and Rechargeable Cards” was added to Directive 470 and prescribes: when the funds in respect to transactions performed using such cards are to be transferred; that a visual indication is to be embossed on the face of the immediate charge card and the rechargeable card to differentiate them from all other charge cards; the format of presenting immediate charge card transactions on the detailed current account statement; and so forth.

The amendments to the directive took effect from April 1, 2016, apart from certain sections as detailed in the circular. Immediate charge cards issued prior to April 1, 2016 are to be exchanged for cards that comply with the directive’s requirements by December 31, 2016. ICC is making preparations for the implementation of the circular.

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. On August 30, 2015, the above order was published according to which, the service provided by an issuer to a clearing agent in respect to the cross-clearing of immediate charge (debit) transactions will be declared a controlled service for the purpose of the commission charged therefor. The order sets the rate of the commission for the aforesaid service at a level of 0.3% of the transaction amount. The order took effect on April 1, 2016 and is valid until March 31, 2017.

For details regarding additional legislation in the credit cards field, see "Legislation and Supervision" below. For details regarding references to the credit card field made in the coalition agreement for the formation of the 34th Government of the State of Israel, in "Chapter A - General overview, goals and strategy".

CRITICAL SUCCESS FACTORS

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information technology systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Antitrust Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; existence of cross-clearing agreements between all credit card companies in Israel; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the operations of ABS and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

MARKET ENTRY BARRIERS

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the issuing entity being controlled by a banking corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertizing and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

ALTERNATIVE PRODUCTS

Many alternative payment means to credit cards exist, starting with cash payments, standing orders, bank transfers, purchase vouchers and checks and ending with payments through the "SmartPhone and the "digital wallet". Bank and off-banking credit as well as the check discounting service form an alternative product to credit and other financial services provided by ICC.

CUSTOMERS

The issuance field. Customers in this field are holders of credit cards, among whom are private customers, employees of large corporations and businesses. As of today, most of the customers of ICC hold bank credit cards. ICC is active in increasing the rate of holders of off-banking credit cards, mainly through the framework of customer clubs, subject to the examination of solvency of each potential customer.

The clearing field. ICC customers in the clearing field are traders, including national chains, that accept "VISA", "MasterCard" "IsraCard" or "Diners" credit cards. Additional customers in the clearing field are trading houses that require services of discounting vouchers, obtaining credit, early payments and advances.

MARKETING AND DISTRIBUTION

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for the company in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are FlyCard, Cal-365, Cal-H&O, PowerCard and You. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. The marketing operations in this field are directed towards the traders, including chains (marketing chains generally utilize one clearing agent for all their branches). Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more.

COMPETITION

The issuance field. The competitors of ICC in the issuing field are the IsraCard group controlled by Bank Hapoalim and Leumi Card Company controlled by Bank Leumi. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The clearing field is characterized by intense competition between the credit card companies.

Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and LeumiCard clearing the brands "VISA", "MasterCard" and "IsraCard".

Competition in the segment intensified during 2012, when the "IsraCard" brand, comprising 17% of the market, opened for clearing by all companies in this sector. Various regulatory provisions, may introduce into the market additional clearing agents, leading to increased competition in this sector. In order to cope with competition in the segment and to strengthen merchants' loyalty toward it, ICC has taken the following measures: a policy of competitive tariffs; investment in resources to improve the service to merchants in order to retain them, while aligning the products and services to the needs of the business; bolstering cooperation with merchants; activating an efficient service array and marketing and selling array that will be able to provide solutions to merchants and to respond to their changing needs; marketing a comprehensive basket of products for merchants, while increasing the market share in this segment.

BUSINESS GOALS AND STRATEGY

The issuance field. Leading the market through the exhaustion of the banking lane and offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).

The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing field. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

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.

ESTABLISHMENT OF THE DIGITAL DEPARTMENT

In May 2016, it was decided to establish a new subdivision at Discount Bank - the Digital Department. The establishment of the department reflects the recognition of changes and trends that have characterized the banking sector in recent years, led by - growth in the share and importance of the direct channels in connecting the Bank with its customers; the need for documentation and effective management of a range of bank-customer interfaces and interactions in all channels; and the benefits, both for the customers and for the Bank, that arise from simplifying and streamlining services and core products, such as current accounts and payment methods.

The new Digital Department leads solutions concept in three principal content spheres - direct channels, the CRM and customer concept and current account.

The department is responsible for setting the course for each content sphere, for shaping the customer's future journeys, for upgrading and adapting the bankers' work environment to the changing reality and for the assimilation of innovative tools, services and solutions with a view of improving customer experience as well as customer satisfaction.

The department was established as part of the Technologies and Operations Division at the Bank, steaming from the realization of the central role that technology takes in the ability to facilitate initiatives in the digital field and with the aim of shortening, to the greatest extent possible, the time it takes to provide advanced digital services to the Bank's customers.

DIRECT CHANNELS

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. Within the framework of this activity, the Bank introduced the following products and services during 2016:

On the Internet website:

Changes in the transactions site. The new transactions site for private customers continued to change and offer customers a unique and advanced user experience:

Presentation of a banking identity document. The possibility of producing an annual report presenting to the customer information regarding all his assets and liabilities as well as the current operation on his account;

Financial instruments – statement of account and historical revaluation. Information to customers having a financial derivatives account providing details of and revaluation of the open transactions, based on the continuous exchange rate and of the transactions that were open at the end of a selected business day, based on the representative exchange rate.

Advanced orders regarding securities. A possibility was added of the use of the advanced orders "stop loss" (STL), "iceberg" (ICE), "fill or kill" (FOK) and "immediate or cancel" (IOC).

Presentation of a summary of consulting conversation via the Internet. A service enabling customers receiving consulting services to view consulting conversations made during the past three years.

"Personal planning" service on the Bank's website. This new tool presents to subscribers of discount@internet the overall picture of their financial conduct and helps them to identify and plan in a sensible manner their expenditure and income. By means of this service, the customer cam obtain a picture of his expenses and income by different categories, observe data in cash flow presentation, to conduct a monthly budget, to define warning signs as well as savings targets.

Locating dormant accounts by way of the Internet. In accordance with the initiative of the Bank of Israel regarding locating dormant accounts or deposits with no entries, in the name of the customer or in names of deceased family members, the Bank enables the submission of requests for locating such accounts through its Internet website.

By the cellular application:

New app for private customers. The new app introduces an innovative and advanced standard of user experience. Uniquely and exclusively for Discount customers, the app enables fingerprint identification ("Discount Touch"), not just for iPhone users, but is also – for the first time in Israel – available also for Android users and provides customers with insights on the state of their accounts. The app was launched at the beginning of July 2016.

The app includes also the opportunity to join the "Brief Glance" service where, basic account information, without identification, regarding current account balance, last three transactions, total credit card charge and the total value of the securities portfolio.

Customers benefit from an advanced experience of receiving information and conducting a broad range of transactions from the banking content platforms, moving between main topics with just a screen swipe, and a fast access to transaction execution and a main menu available from any screen.

Moreover, after opening the app for the first time and completing the full identification process, subsequent use of the app is enabled just by password identification.

Additional services via the application were introduced during the year:

Withdrawal of cash without an ATM card. The new service enables the customer who does not have a credit card, or who has forgotten the entry code for the card, to order a sum of money through the application and withdraw the amount from the ATM machine by entering the "withdrawal code" and the relevant amount.

Information regarding loans by means of the application. In addition to the possibility of obtaining an immediate and personally adapted loan, a service existing up until now, the customer is now presented with details of the loans recorded in his account, such as: the balance, the monthly repayment amount, number of repayments outstanding, warning notices and the repayment schedule.

Information regarding foreign currency. Details of the foreign currency accounts, including the balance, the last thirty-two entries in each currency, future entries, representative exchange rates and more.

Additional options regarding the information as to current account movement. Search of entries made in the past six months, screening by type of entry and presentation of the balance at end of a business day.

Depositing checks between banks. In private or small business accounts, the possibility was added of depositing via the application also checks of other banks in addition to Discount Bank.

Upgraded "Business+" app. An update to the existing version of the "Business +" app - the new version supports all the existing "Business +" services on the Internet (based on an Internet site infrastructure adapted for cellular browsing).

FORMATION OF A FINTECH & INNOVATION UNIT

As part of the Bank's preparations for future banking within the framework of the strategic plan, a Financial Technology ("FinTech") and Innovation Unit has been established by the Planning, Strategy and Finance Division. The aim of the unit is the creation of cooperation with FinTech companies and the integration thereof in value offers to customers, as part of the banking work environment and of the systems of the Bank.

MAIN DEVELOPMENTS IN ISRAEL AND AROUND THE WORLD IN 2016

DEVELOPMENTS IN GLOBAL ECONOMY

General. The year 2016 was characterized by an environment of political and economic uncertainty, and by a moderate global economic growth. Private consumption continued to lead growth in the developed countries, while industry and exports continued to demonstrate weakness. In addition, this year was characterized by a moderate rise in the inflationary environment.

The U.S. economy grew in 2016 by 1.6%, a slowdown in relation to the growth of 2.6% in 2015. The Eurozone economy grew at the rate of 1.7%, compared to 2% in 2015. As estimated by the IMF, the global product grew in 2016 at a rate of 3.1%. Concurrently, the decline in unemployment rate trend continued to a level of 4.8% in the U.S. and 10% in the Eurozone, compared to 5.3% and 10.9% in 2015, respectively. The Chinese economy grew at the rate of 6.7% compared with 6.9% in 2015, and it is obvious that concerns regarding the sharp decline in the growth rate were exaggerated.

Following zero inflation rate in the first half of the year, a rise in the inflationary environment was recorded in the second half of the year on the background of a rise in commodity prices, led by the price of oil. At the end of the year, the inflation rate recorded in the U.S. and in the Eurozone was lower than the targets of the central banks. The moderate growth, alongside the low inflationary environment, supported the continuation of the expansionary monetary policy in most developed economies around the world. In view of the improvement in the macro-economic data and the recovery in inflation, the U.S. was the only economy that raised the interest rate during the passing year. Nevertheless, even there, at the end of the year, the monetary policy remained expansionary. In the Eurozone, the EBC lowered the monetary interest rate and the interest rate applying to liquidity surplus, and extended the bond purchase program until the end of 2017. Concurrently, the central bank of Japan introduced an innovative policy (expansionary), controlling the return graph.

Financial markets. At the beginning of the year, the global trading in equities was characterized by high volatility on the background of concerns regarding the stability China and the steep reduction in oil prices, and thereafter on the background of the political events, principally the Referendum in Great Britain regarding the exit from the Eurozone and the general elections in the U.S..

Changes in the leading equities indices recorded during the years 2015 and 2016

Index	2016	2015
S&P 500	9.5%	(0.7%)
DAX	6.9%	9.5%
MSCI Emerging Markets	8.6%	(17.0%)

In the U.S., the uncertainty regarding the political events and the expected interest rate outline, led to high volatility in returns on U.S. government bonds. At the end of 2016, following the election of Trump and the expectations for an expansionary monetary policy, the returns on bonds for ten years rose to a level of 2.44%.

Returns on government bonds

Return on bonds for 10 years	December 31, 2016	December 31, 2015
U.S.A.	2.4%	2.3%
Germany	0.21%	0.63%

In 2016, the U.S. dollar has strengthened against most world currencies, while the Euro continued to lose ground. This, on the background of expectations for a significant fiscal expansion and the continued process of raising the interest rate in the U.S., while in Europe the expansionary monetary policy is expected to prevail.

Changes in the U.S. dollar against selected currencies

Exchange rate	2016	2015
EUR	3.2%	10.3%
JPY	(2.8%)	0.6%
GBP	16.3%	5.4%

Following the steep decline in the prices of commodities during 2015, a recovery was recorded in 2016 led by energy prices.

Changes in selected commodities indexes

	2016	2015
The commodities index - GSCI	27.8%	(25.5%)
The oil price (BRENT)	52.4%	(35.0%)
The oil price (WTI)	45.0%	(30.5%)
Gold	8.0%	(10.6%)

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

In 2016, the economy grew at a high rate of 4%, the business product growing by 4.2%. The per capita product grew at a rate of 2%. Private consumption and investments in fixed assets led the growth with a steep rise of 6.3% and 11.3%, respectively. In addition, the public consumption expenditure excluding defense imports grew by 3.6%, and exports grew by 3%.
The labor market showed improvement during 2016. The average rate of unemployment declined from 5.3% in 2015 to 4.8% in 2016, with an increase in the rate of employment. In total, approx. 100 thousand of employed persons were added to the market during 2016, most of whom in the business sector. Concurrently, the average wage for an employee position increased during the passing year by a real term rate of 2.3%.

MAIN DEVELOPMENTS IN ECONOMIC SECTORS

Industrial production data (industry excluding mining and quarries) indicates contraction of 0.3% in 2016, with significant differences noticed between the technological might. The production index in the hi-tech sectors contracted by 5.8%, while growth was recorded in the other sectors.
The low interest environment and the low rate of unemployment support private consumption, with a rise of approx. 6% in turnover of the wholesale and retail trade and a rise of 8.7% in purchases by credit cards in 2016.

DEVELOPMENTS IN THE ACTIVITY OF THE ISRAELI ECONOMY WITH OVERSEAS MARKETS

In 2016, direct investments in Israel by foreign residents amounted to approx. US$12.3 billion, compared with US$11.5 billion in 2015. Financial investments by foreign residents on the Tel Aviv Stock Exchange amounted in the reviewed period to realizations of US$0.8 billion compared to investment of approx. US$ 1 billion in 2015. The said decrease stemmed from realizations of shares in the amount of US$408 million, compared to an investment of US$1.7 billion in 2015.

Financial investments in marketable securities by Israeli residents abroad amounted in 2016 to US$1.6 billion. This, on the background of realizations in the amount of approx. US$0.7 billion of equities, alongside investments in bonds in the amount of approx. US$2.3 billion.

Changes recorded in investments of the Israeli economy abroad

Investments in Israel by foreign residents	2016	2015	Change
	US$ billion		
Total direct investments through banks	12,324	11,511	7.1%
Total financial investments	2,929	3,141	(6.7%)
Of which: Government bonds and MAKAM	(70)	(648)	
Shares	(408)	1,686	

Investments abroad by Israeli residents	2016	2015	Change
	US$ billion		
Total direct investments	12,498	9,886	26.4%
Total financial investments	1,579	9,905	(84.1%)

DEVELOPMENTS IN FOREIGN EXCHANGE RATES AND INFLATION RATES

The annual inflation rate was negative throughout the year 2016, amounting in December to a negative rate of 0.2%. The negative inflationary environment stems mostly from the Government policy of reduction in consumer prices, the strengthening of the shekel and the low global inflation. In the reviewed period, the shekel strengthened by 1.5% and 4.8% as against the US dollar and the Euro, respectively. In terms of the effective exchange rates, the shekel strengthened by 4.8%.

FISCAL AND MONETARY POLICY

Fiscal policy. The budgetary deficit amounted in 2016 to NIS 26 billion, comprising 2.15% of the product. A deficit of NIS 35 billion was planned in the original budget for 2016, comprising 2.9% of the expected product according to the original budget. The deviation of the actual deficit from that planned in the budget, stems mainly from surplus revenues in the amount of 8.8 billion. This, on the background of exceptional import of motor vehicles, the rise in wages, high volume of transactions on the housing market and the increased enforcement and tax collection efforts on the part of the Tax Authority.

Monetary policy. The monetary policy of the Bank of Israel in the reviewed period continued to be extremely expansionary, with the interest remaining at its low point of 0.1%. This was due to the low inflationary environment, and was far from the lower threshold of the inflation target range, and the strengthening of the shekel trend. In addition, the Bank of Israel involved itself in currency trading and purchased dollars in excess of that designated in the gas plan with a view of preventing the further strengthening of the shekel.

THE CAPITAL MARKET

The reviewed period was characterized by high volatility in the local capital market, due mainly to global developments and in accordance with the global trend, impressive increases were recorded in the fourth quarter. In total for the period, the central indices recorded a decline in rates, inter alia, due to weakness in dominant sectors, such as: pharmaceuticals and gas.

Changes in selected share indices in the years 2015 and 2016

Index	2016	2015
General share index	2.2%	11.8%
TA 25	(3.8%)	4.4%
TA 100	(2.5%)	2.0%
TA banks	17.8%	7.3%
Blutech 50	16.1%	1.8%
Real-estate 15	17.0%	1.1%

Trade in government bonds has been characterized during the year by a fall in returns, in accordance with the global trend. The trend was reversed in the last quarter of the year, and following the U.S. elections a steep rise in returns was recorded. In total for the period, returns on shekel bonds for ten years remained with no material change, trading at the end of the year at a level of 2.1%. Trading in corporate bonds was largely derived from the trade trend in government bonds, but also from the moderate opening of the spreads.

Changes recorded in selected bond indices during 2015 and 2016

Index	2016	2015
General bonds	1.8%	1.8%
General Government bonds	0.8%	1.7%
Shekel Government bonds	1.1%	3.0%
Linked Government bonds	0.4%	(0.2%)
General Corporate bonds	3.9%	1.9%
Linked Corporate bonds	4.0%	0.4%
Shekel Tel-Bond	2.4%	2.2%

In 2016, capital raised through corporate bonds totaled NIS 62.8 billion, compared with NIS 51.6 billion in 2015. Of this sum, NIS 16.6 billion was raised through issuances by the banks, compared with NIS 18.3 billion in 2015.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial assets portfolio held by the public increased during 2016 by 3.6%, amounting at the end of the year to NIS 3.4 trillion. The said growth in the value of assets stemmed to a large extent from an increase of 5.2% in cash and deposits in Israel and from an increase of 6% in Israeli corporate bonds. On the other hand, the equities component in Israel and abroad declined by 2.5% and 4% respectively. In addition, the value of assets of Israel government bonds (marketable) declined by 6%.

Distribution of the asset portfolio held by the public

	Dec 31, 2016	Dec 31, 2015
Shares	22.2%	22.9%
Non-linked assets	36.1%	35.1%
CPI linked assets	29.1%	29.5%
Foreign currency linked assets	12.6%	12.6%

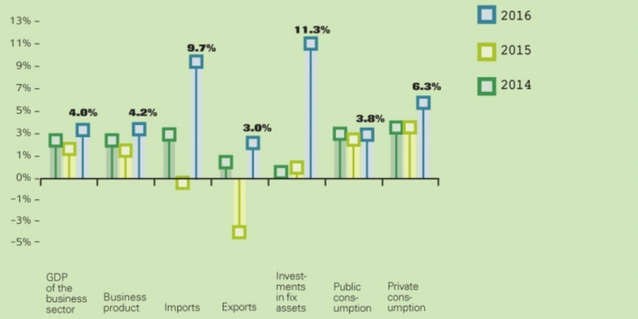
PRINCIPAL ECONOMIC DEVELOPMENTS IN JANUARY-MARCH 2017[6]

The year 2017 started with rising prices on the financial markets and with improvement and rise in the sentiment indices, both of consumers and of the industry. This, on the background of expectations for a significant fiscal expansion in the U.S. and mitigating regulation on business activity. Concurrently, the inflationary environment continued to rise on the background of the rise in energy prices and in prices of other commodities. The data in the U.S. continue to indicate improvement in the employment market. During the month of March, the FED raised the interest rate by 0.25%, and the financial markets embody two additional increases in the interest rate in the course of 2017, while in Europe the policy is expected to remain unchanged during the coming year. In Israel, the labor market maintains a positive momentum and export of goods data indicates recovery. At the same time, the shekel appreciated since the beginning of the year by 2.6%, in terms of the effective exchange rate. The inflationary environment in Israel is significantly lower than that of the rest of the Western World, and the short-term inflationary expectations have recorded a decline.

6 All the data in this chapter refer to the period from January 1, 2016 to March 20, 2017.

Quarterly growth (in annual rate) in selected economies

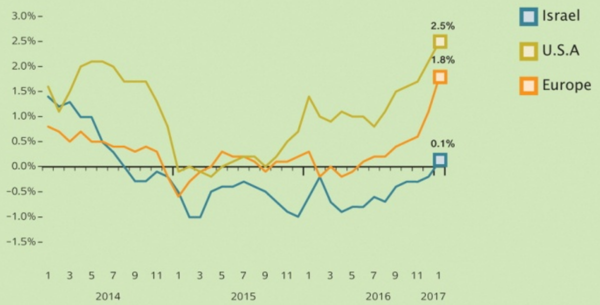
GDP Growth in Israel – Selected Indicators



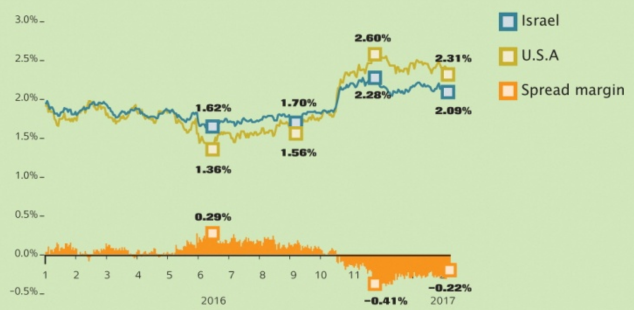
Unemployment rate and participation rate in Israel–quaterly

Exchange rate of the Shekel against the Dollar, the Euro, and the nominal effective exchange rate, index, 100=December 2013

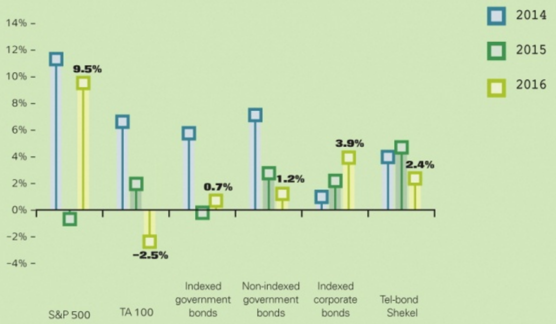
Annual inflation in Selected Economies



Israel and the US 10Y government bonds and spread



Annual rate of Change in Selected Indices



Prices of selected commodities, cumulative change since December 2014

LEGISLATION AND SUPERVISION

GENERAL

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, to the extent that these have an extraterritorial effect relating to its operations.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank’s said operations.

Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).

Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc.

In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, liquidation and receivership laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.

The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority and the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance. These entities perform, from time to time, audits at the Bank and its subsidiaries relating to various fields of operation.

The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.

A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.

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

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel Act (legislation amendments), 2017, ("the Act") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.

Following are the principal issues of the Act:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from January 31, 2017 ("the beginning date"), and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date.

1.2 In the period from the end of four years from the beginning date and until six years from this date, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply in the said in item 1.1also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration , inter alia, the state of competition existing in the credit market. It is noted that as of date of this report, the Bank is not considered a "bank having a Wide-Ranging Activity", as the term is defined in the Act.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.

1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.

1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.

1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement.

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. Where the banking corporation is the issuer, the manner of presentation of the information on transactions made by debit cards issued by another issuer, would be identical to the manner of presentation of the information on transactions made by a debit card issued by the banking corporation.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.

These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 During a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Act and until the end of the transitional period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period with the consent of the Governor and subject to approval of the Economic Committee of the Knesset, if he finds the matter justified for the purpose of promoting competition in the credit field. Engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period, also the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers.

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Act, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer. In its initial approach to the customer, the charge card company shall inform him of his right to request that no use should be made of the details of his engagement.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator which operated at eve of the beginning date of the Act (ABS)– It is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Act, is entitled to determine a rate different than that stated above and where over 75% of the means of control in an operator as above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.

Following the publication of the Act, the possibility of a merger between ABS and BCC is being examined, and in this framework, a preliminary approach was made to the Antitrust Authority in respect of obtaining an exemption from the requirement to serve merger notices in respect of the said merger.

1.10 Within the framework of the Act, amendments were made to the Supervision over Financial Services Act (Regularized Financial Services) Act, 2016, and a chapter was added thereto in the matter of service for comparing financial costs, the principal points of which are: the duty imposed on a financial body to allow a customer or the provider of a service for comparing financial costs, who obtained a power of attorney from the customer, at the request of the customer or of the provider of the service, as the case may be, to observe online the financial data pertaining to the customer maintained in the hands of the financial body; the use of the online financial information that is permitted to be made by a provider of the service for comparing costs; authorizing the Minister of Justice (in consultation with the Governor of the Bank of Israel and the Antitrust Commissioner and subject to approval of the Economic Committee of the Knesset) to determine Regulations regarding observation and use of financial data; authorizing the Supervisor of Financial Services to issue instructions concerning the use of online financial information; maintaining a registry of providers of cost comparing service; definition of fiduciary duties and care relating to providers of cost comparing service. The said Chapter will take effect on the date on which primary regulations would be set regarding the viewing and making use of online financial information. Primary regulations, as stated, would be published not later than six months from the beginning date. Draft regulations were recently published concerning the registration in the Register of Cost Comparison Service Suppliers, insurance and suspension of registration.

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

At the end of eighteen months from the beginning date, if certain conditions determined in the Act are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

1.12 A committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Act since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; to monitor the implementation of the provisions of the Act; to recommend in the matter of activating the authority of the Minister of Finance in respect of extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations. Within ninety days from date of its formation, the committee is to publish measurable tests for the examination of success in increasing competition in the banking market.

The Act enters into effect on date of its publication; however, certain of the provisions have later effective dates, as noted with respect to a part of the instructions, as detailed above.

Issues regulated by the Act have an impact upon the Bank and ICC and upon their operations. Notwithstanding that, at this stage it is not possible to estimate the said impact, neither in terms of materiality nor in terms of quantity. The Bank and ICC are studying the implications and ramification of the Act, are acting for its implementation and follow developments in legislation and regulation, as well as moves and developments in the market following the publication of the Act.

SUPERVISION OVER FINANCIAL SERVICES ACT (REGULARIZED FINANCIAL SERVICES), 2016

The Act was published on August 1, 2016, the essence of which being the regularization of the financial services field – service regarding a financial asset or the granting of credit, and the activity of providers of financial services (hereinafter: "provider of financial services"). Banking corporations are not considered providers of financial services in term of the Act. The principal issues of the Act are: establishing a supervisor over providers of financial services, and instructions regarding the supervision over their operations; definition of the licensing duty and the terms for the granting of a license to provide financial services; restrictions on the management of a business of a provider of financial services; different instructions regarding the operation of a provider of financial services; permit for the control or for the holding of means of control of a provider of financial services. The Act includes an indirect amendment to the Prohibition of Money Laundering Act, 2000, which applies the money laundering prohibition regimen to providers of financial services. In principle, the Act enters into effect on June 1, 2017, and with respect to entities engaged in providing service for financial assets – on June 1, 2018.

THE ECONOMIC PROGRAM ACT (LEGISLATION AMENDMENTS FOR THE IMPLEMENTATION OF THE ECONOMIC POLICY FOR THE BUDGET YEARS OF 2017 AND 2018), 2017

The Act was published in the Official Gazette on December 29, 2016, and it includes Chapter "I" – the increase of competition in the retail credit market, within the framework of which the Supervision over Financial Services (Regularized Financial Services) Act, 2016, was amended, in a way that the regulation and supervision under it shall apply to providers of interest bearing deposit and credit services as well as to the services provided by them. An additional area regularized within the framework of the amendment is the issue of credit cards by providers of credit, as determined in the Supervision over Regularized Financial Services Act.

SUPERVISION OVER FINANCIAL SERVICES (REGULARIZED FINANCIAL SERVICES) (AMENDMENT) (DEPOSIT AND NONINTEREST BEARING CREDIT SERVICES) BILL, 2016

Within the framework of this Bill, published on November 14, 2016, it is proposed to amend the Supervision over Financial Services (Regularized Financial Services) Act, 2016, in a way that the regulation and supervision under it shall apply to providers of noninterest bearing deposit and credit services as well as to the services provided by them.

SUPERVISION OVER FINANCIAL SERVICES (REGULARIZED FINANCIAL SERVICES (AMENDMENT NO.__) ONLINE PLATFORMS FOR CREDIT BROKERAGE) BILL MEMORANDUM, 2017

The Bill Memorandum that was published on January 30, 2017, proposes to establish by legislation an additional segment of different financial services fields, which regularizes the off-banking credit sector by means of platform providing online brokerage with respect to credit granting between lenders and borrowers, which are private individual. The principal provisions of the Bill Memorandum are: establishing the Commissioner of the Capital Market, Insurance and Savings as the Supervisor over the operation of the platforms; definition of a licensing duty for the operation of online platforms for credit brokerage. The licensing duty will not apply to banking corporations; definition of special restrictions on the holder of a license for the online brokerage of credit (fiduciary duties, operating only by means of a trust account conducted in a closed system; prohibition on engagement in the granting of credit, unless in accordance with rules established by the Supervisor; prohibition on disclosure of customer data; granting the Supervisor tools and authority for the regularization of platform operation, including with respect to the disclosure of information to borrowers and lenders by a platform owner).

BANK OF ISRAEL (AMENDMENT NO. 4) (THE COMMITTEE FOR FINANCIAL STABILITY) BILL, 2017

The Bill, published on the Official Gazette on January 25, 2017, proposes to establish a financial stability committee with the aim of coordinating the different financial supervisory authorities – the Supervision of Banks, the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance, the Supervisor of Providers of Off-Institutional Financial Services providers at the Ministry of Finance, the Supervisor of Payment Systems and the Israeli Securities Authority, as well as between them and the Bank of Israel and the Ministry of Finance, and to bring about a coordination between them, in order to support the stability of the financial system and the regularity of its operation.

REGULATION OF OFF-BANKING LOANS BILL (AMENDMENT NO. 3), 2015

A revised version of the Bill was recently published, the principal items of which are: a change in the name of the Bill to "Fair Credit Bill"; expanding the applicability of the Bill to additional lenders, including a banking corporation, auxiliary companies, clearing agent, an entity engaged in operating an online credit brokerage system, entities granting credit and entities having a license for the granting of deposit and credit services regulated by the Supervision over Institutional Financial Services Act. Furthermore, certain of the provisions of the Act are to apply also to credit facilities; changes and restrictions regarding the maximum rate of credit cost; changes and restrictions regarding the maximum rate of interest on arrears; changes regarding determination of the effective interest rate in a loan agreement; widening the disclosure requirements and the protection of borrowers; determination of criminal sanctions and the addition of monetary sanctions mechanism in respect of violation of the provisions of the Act.

DRAFT OUTLINE FOR ESTABLISHING A NEW BANK IN ISRAEL

Among the measures that the Banking Supervision Department is promoting to bolster competition in the Israeli banking system and to support the changes outlined in the initiative of the Minister of Finance and the Strom Committee, the Banking Supervision Department published on June 14, 2016 the draft outline that focuses on two main topics: an outline for granting a bank license to the credit card companies and the required conditions and exemptions for establishing a completely new bank. The outline details the measures for removing the obstacles that had until now prevented the establishment of a new bank in Israel.

PRINCIPLES AND RELATED ACTIONS FOR THE DEVELOPMENT OF A PROTOCOL REGARDING TRANSACTIONS MADE BY USE OF A DEBIT CARD AND THE USE THEREOF

On July 18, 2016, the Supervisor of Banks published a document containing principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof. This, as part of promoting competition in the debit card market. The document of principles creates the terms allowing entrance of new players all along the line of performing transactions by use of debit cards.

TERMS OF ACCESS TO CONTROLLED PAYMENT SYSTEMS

On July 31, 2016, the Supervisor of Banks published the terms of access to the "debit card services" system, to the "automatic bank instruments" system operated by ABS, and to the "credit, debit and payment transfer" system operated by BCC – threshold terms for participation therein. This move is intended to allow off-banking entities to participate, either directly or indirectly, in these payment systems.

PRINCIPLES FOR THE REGULATION OF PAYMENT SERVICES

The subcommittee for the regulation of payment services published on October 5, 2016, a document of principles for the regulation of payment services, which is to serve as the basis for a Bill Memorandum in the matter. The regulation of payment services, would allow off-banking entities to manage accounts on behalf of their customers and to provide them with payment services, including the issuance of means of payment, the clearing of transactions and the transfer of payments, and would increase competition in the payment services market. The principal points of the document of principles are: regulation of the licensing of a payment entity (a license requirement would not apply to banking corporations); definition of consumer protection requirements (to apply to all suppliers of payment services).

LEGISLATION AND STANDARDS IN THE MATTER OF DEBT COLLECTION

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower on account of the rights of lenders, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.

In this framework, the following legislation matters should be mentioned:

- **Debt Execution Act (Amendment No. 46), 2015,** in effect as from October 2015, which greatly encumbers the delivery of notice to debtors, in view of the duty imposed on the Appellants to serve the defendant, by registered mail with delivery confirmation, a warning notice of the intention to submit the claim to the Debt Execution Office.
- **Banking Act (customer service) (Amendment No. 19), 2014**, in effect as from September 2014, does not allow a bank to call for the immediate repayment of a loan or to institute legal proceedings against the borrower, unless a prior notice in writing is delivered to the borrower in person, and this 21 days beforehand.
- **Debt Execution Act (Amendment No. 47 and provisional instruction), 2015,** in effect as from September 2015, allows a debtor of limited means (as defined in the Debt Execution Act, 1967) to obtain a discharge of his debts not only through bankruptcy proceedings but also through debt execution proceedings, subject to applying conditions. This is a new amendment though evidence exists of discharge

granted to debtors within the framework of debt execution proceedings. Moreover, to the best knowledge of the Bank, the enforcement authority approached different debtors (even those not qualified under the terms stated in the Debt Execution Act) advising them to submit requests for discharge from their debts. It is also noted that whereas bankruptcy proceedings involve a payment by the debtor, proceedings for a discharge request at the debt execution office do not involve any cost to the debtor. The meaning of such a discharge is – an immediate write-off of debts of the debtor by the Debt Execution Registrar (excluding alimony debts, mortgage repayment, indeterminate damage, debt created by deceit and a criminal or administrative penalty – which are not dischargeable).

- **Reform applied by a Receiver in the management of bankruptcy files** – has significantly shortened the management period of a bankruptcy file from its inception to the grant of a discharge to the debtor, namely, within eighteen months, a debtor in bankruptcy proceedings may obtain a discharge leading to the write-off of his debts.
- **Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks in the matter of debt collection procedures of February 2017** – the Directive was formed by the Supervisor of Banks in participation with the Enforcement and Collection Authority, with the aim of regulating different rules, actions and functions involved in the debt collection procedures (it is noted that the Directive relates to households and small businesses only and does not apply to corporations). The aim of the Directive is, inter alia, to increase fairness and transparency with respect to borrowers. It is noted that though the Directive will take effect in February 2018, its first draft was published in the middle of 2015, and the Bank began implementation thereof a year ago.

  To complete the picture it is noted that several regulation initiatives are still at the proposal stage:
- **The Insolvency and Economic Recovery Bill, 2016, of March 2016 – constitutes a virtual revolution in the insolvency field (both for corporations and private individuals).** Its aim is the economic rehabilitation of insolvent debtors, even on account of impairment to the position of secured creditors.
- **The Debt Execution Bill (Amendment – elimination of the possibility of a stay in exit from the country order in respect of a low amount debt), 2015, of May 2015.** In accordance with this Bill, a stay in exit from the country order may not be given in the case of debts in amounts lower than NIS 40,000.
- **Debt Execution Bill (Amendment – the non-charging of interest due to a delay in conduct of debt execution proceedings), 2016,** of January 2016, according to which a verdict or bill not served for execution for over 180 days since the date on which it could be served, shall not accrue interest and the charging of interest on the debt shall stop until the actual date of service for execution. The object: to avoid a delay by the creditor in the opening of a debt execution file following a Court verdict or a dishonored bill.

ANTITRUST

EXEMPTION FROM A BINDING ARRANGEMENT WITH RESPECT TO THE HOLDING AND JOINT ACTIVITY WITHIN THE FRAMEWORK OF ABC AND BCC

On March 20, 2017, the validity of the exemption from approval of a restrictive arrangement between ABS and the banks, including all terms thereof, was extended by 45 days, until May 4, 2017. This extension is intended to give the parties additional time to present their arguments regarding the findings of the Antitrust Authority as regards the exemption. The examination by the Antitrust Authority regarding the continuation of the exemption was, inter alia, made in view of the provisions applying to ABS, determined within the framework of the Increased Competition and the Reduction in Concentration and Conflict of Interests in the Banking Market in Israel (Legislation amendments) Act, 2017.

CONSORTIUM AGREEMENTS FOR THE GRANTING OF CREDIT

The Antitrust Commissioner informed on February 28, 2011, that she had reached the conclusion that the consortium arrangements for the granting of credit, made between banks and insurance companies and between themselves, should continue to exist, and she detailed the conditions, which subject to their existence, she does not intend to enforce the provisions of the Antitrust Law, 1988 upon the said arrangements. The announcement extends the effect of prior announcements issued by the Commissioner with respect to the consortium arrangements, with certain changes, for a period of two years. The notice had been extended from time to time, the most recent one until December 31, 2017.

PROHIBITION OF MONEY LAUNDERING AND PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

PROHIBITION OF MONEY LAUNDERING

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

PROHIBITION OF MONEY LAUNDERING ACT (AMENDMENT NO. 14), 2016

An amendment to the Prohibition of Money Laundering Act was published on the Official Gazette on April 7, 2016. The amendment states that serious tax offences would be recognized as predicate offences according to the Prohibition of Money Laundering Act, and the sanctions under this Act shall apply to them, including punishment of a more serious degree (up to ten years imprisonment) and the possibility of confiscation of assets. The amendment to the Act is intended to combat illegal capital, intensify tax collection and reduce tax evasion, and will apply to serious tax offenses according to various legislation, such as: the Income Tax Ordinance, Land Taxation Act, etc. It is determined, among other things, that Section 220 of the Income Tax Ordinance shall be considered a predicate offence in the case of tax evasion in an amount exceeding NIS 1,000,000 within a period of one year, or in an amount exceeding NIS 2,500,000 within a period of four years. These tax offences are characterized by a mental basis of a special intention to evade tax payments. Furthermore, the amendment expands the investigative powers of the Tax Authorities and permits the Authority to obtain information from the data base of the Prohibition of Money Laundering and the Finance of Terror Authority. The amendment takes effect six months from date of publication.

The Supervisor of Banks published on August 30, 2016, an updated draft circular in the matter of preparations for compliance risk management, in view of tax offences being declared as a predicate offence. The draft circular is intended to assist banking corporations in the management of the said risk through emphasizing issues, which might be more relevant to tax offenses. Thus, inter alia, the draft notes that following the said amendment of the Act, managements of banks have to examine the changes required in bank policies in the matter of prohibition of money laundering and the finance of terror, emphasizing the issue of "knowing the customer"; update the risk assessment of the bank; examine the relevant modes of operation for the identification of accounts in which funds are deposited which might originate from tax evasion or unreported income to ensure that the updates to the policy and risk assessments, as well as the relevant activity patterns, are included in the Bank's procedures, and to also update the controls and the Bank's training programs, placing emphasis on the changes and updates that have been made in the procedures as a result of the amendment to the law.

THE PROHIBITION ON MONEY LAUNDERING (AMENDMENT NO. 19) BILL, 2016

The Bill passed its first reading by the Knesset on December 12, 2016. The object of the proposed amendments is to improve the combat against money laundering, make it more efficient and modify it to the international standards in this field, with which Israel has to comply as a condition for joining the FATF Organization. The principal proposed amendments are: expanding the definition of the term "monies" in a way that it would include all means of payment to bearer; changing the punishment level in respect of money laundering offense, in accordance with existing rulings; cancellation of the limitation on classes of assets as detailed in the second Addendum and establishing a limitation according to value; amendment of the term "beneficiary" so that in the case that the beneficiary is a corporation, the owner of the controlling interest in that corporation would also be considered a beneficiary; authorizing the Supervisor of currency services providers to impose monetary sanctions in certain cases; authorizing the Supervisor of currency services providers and the Supervisor of business services providers to provide information to the enforcement and investigation authorities.

THE FIGHT AGAINST TERROR ACT, 2016

The Act was published on the Official Gazette on June 23, 2016. The Act's aim is to determine instructions in the criminal law and administrative law fields, including special enforcement powers for the purpose of combating terror.
The Act regularizes and widens the authority of Government agencies in everything relating to the combat of terror and declaration of terror organizations. The matters being dealt with by the Act are, inter alia, enlargement of the term "terror organization", determination of a uniform arrangement for the declaration of terror organizations replacing the existing declaration mechanisms, stricter punishment, formation of a new category for "terror offenses" – offences uniquely relating to the terror field and which relate to the activities of terror organizations, a new regulation regarding forfeiture and seizure of assets related to a criminal offense, and extending the authority of the police regarding the prevention of terror activity. The Act takes effect on November 1, 2016. Upon entry into effect of the Act, the Prevention of Terror Ordinance, 1948, and the Prohibition of the Finance of Terror Act 2005, were abolished.

LEGISLATION AND REGULATION AMENDMENTS RELATING TO THE CAPITAL MARKET

The Supervision over Financial Services Act (Legislation amendments), 2016. The Amendment to the said Act was published on the Official Gazette on August 21, 2016, according to which, the Capital Market, Insurance and Savings Department at the Ministry of Finance, was turned on November 1, 2016 into an authority acting as an independent Governmental unit – "the Capital Market, Insurance and Savings Authority" (hereinafter: the "Capital Market Authority"). This move was explained in that the independence of a financial supervisory authority is vital to the existence of its responsibility, and to the efficient and quick realization of its duties and authority, based on professional characteristics, and in an impartial manner devoid of political influences. The Authority will continue to supervise the entities supervised by the Capital Market Department, including the Bank and the pension consultants employed by the Bank, and this alongside the expansion of its authority in different matters, which until now had been subject to the Minister of Finance.
Pension consulting. The Capital Market Authority published on March 1, 2017 the draft Regulations of Supervision over Financial Services (Provident Funds) (Distribution commissions) (Amendment), 2017, within the framework of which it is proposed to extend the application of the Regulations also to pension products such as investment provident funds and insurance funds (executives insurance) and in addition offering a pension consultant the possibility to sign distribution agreements with a managing company under various terms, including a different distribution commission rate, with respect to different groups of products. The Regulations in their present version permit institutional bodies to enter into a distribution agreement with license holders of the pension consultant class, including the Bank, only with respect to the distribution of pension products of the provident or savings funds, pension funds and further education funds at identical rates and payment terms.
An amendment to the circular regarding a power of attorney granted to a license holder was published on November 30, 2016. Among other matters included in this amendment, the duty to obtain once more the signature of customers that had received pension consulting services prior to May 1, 2013, and which have not signed the power of attorney form in accordance with the circular, was abolished.
Securities Bill (Amendment No. 60) (Change in structure of the Stock Exchange), 2016. On February 20, 2017, the Bill was approved by the Finance Committee towards its second and third readings. The Bill is intended to enable the change in the structure of ownership of the Stock Exchange, held at present mostly by the banks, while turning it into a profit earning corporation. In order to diversify the composition of the shareholders of the Stock Exchange and to encourage the present Stock Exchange members to sell their holdings in the Stock Exchange it has been suggested that their holdings in excess of 5% will become dormant and shall not confer any rights. It has further been determined that when the present shareholders of the Stock Exchange would sell their holdings, they would be required to pay over to the Stock Exchange an amount equal to the full difference between the value of the shares they own, based on the equity capital of the Stock Exchange, and the sale price. This amount would serve the Stock Exchange to reduce commissions and for technological development, but may not be used for the payment of dividends. For additional details, see the 2015 Annual Report (p. 460).
Regulating the provision of investment consulting and portfolio management services through the use of technological means. The Israeli Securities Authority published on August 23, 2016, the final version of the "Instruction to license holders regarding the granting of services through the use of technological means". According to this Directive, the public would be able to obtain online services (engage in an agreement for investment consulting or for portfolio management through use of the computer, complete online the clarification of needs questionnaire, and obtain investment recommendations through the computer). In addition, the Directive regulates signal services and social trading. The Directive details the means which a license holder providing online services has to apply in order to comply with fiduciary duties and care.

Foreign funds. On May 5, 2016, the Mutual Investment Trust Regulations (Distribution fees) (Amendment), 2016, were published on the Official Gazette. The Regulations apply as from September 30, 2016. for additional details see the 2015 Annual Report (p. 460).

New regulation regarding mutual funds. The Mutual Investment Trust Bill (Amendment No.27) (Exchange Traded Funds), 2016, was published on December 28, 2016. The aim of the Bill is to establish a legislative basis for a mutual fund of a new class – the ETF – in order to enable the turning of the Exchange Traded Notes existing at present into ETF mutual funds, as well as the regulation of the ETN market under the Mutual Investments Trust Act.

U.S. LEGISLATION

Dodd Frank

Following the U.S. Dodd Frank reform, regulating the operations of banks and financial institutions in the U.S., as well as regulating the activity of financial institutions operating outside the U.S., the operations of which may be related to the U.S.. The Bank acts in order to comply with the parts relevant to its operations, including, among other things, as providers of financial services to Americans, or as operating through American brokers or having activity with American counterparties, etc. Parts of the Reform have an influence on various activities of the Group. The dates of implementation of the legislation vary according to the various requirements stemming from the Law, as detailed below.

Following are several fields included in the reform:

Living Will. As part of the Reform, it is determined that foreign banking organization (FBO), the global total assets of which on a consolidated basis is in excess of US$50 billion, and which operate in the U.S., to prepare and submit to the U.S. authorities a plan of action, in respect to their entities operating in the U.S., a plan of operation - "living will" - in the case of insolvency of the parent company.

Since 2013, the Bank prepares a plan of action, as stated, in respect of the previous year of operations, as approved by the Bank's Management, and submits the plan to the authorities in the U.S.. The Bank has received the approval of the U.S. authorities for the submission of a Reduced Plan.

Volcker Rule. The Volcker Rule has been enacted within the framework of the Dodd Frank Reform, which, among other things is intended to restrict the activity of banks to "traditional" banking operations (the granting of credit and similar activities) and to prevent their exposure to risks related to investment activity having a higher risk potential. The two central restrictions imposed on financial institutions under the Volcker Rule are the prohibition on propriety trading in derivatives, securities and other instruments, and the prohibition on sponsoring activities or on investment in private equity funds, hedge funds and such, all this where a "U.S. factor" is involved in any of the above mentioned activities.

The Bank has studied the implications of the Directive and has formed a procedure for its implementation, which includes modifications to the relevant activity in accordance with the limitations of the Directive.

Swap Rule. Constitutes legislation intended to regularize trading in non-marketable derivatives (OTC). In addition to the reform in the U.S., a parallel reform exists in Europe (EMIR), which took effect gradually as from the year 2016. The Bank is preparing for the implementation of the EMIR reform with respect to everything relating to the central clearing of derivatives, including the operational and computer system changes that would be required in order to implement the legislation, to the extent that this would apply to the Bank's operation in derivatives and has engaged a clearing house member for the execution of the relevant operations. The Bank is preparing for additional changes regarding the clearing of nonmarketable derivatives (OTC), including, inter alia, changes in the manner of depositing collateral for the operations.

FRB Assessments for Large Financial Companies. The U.S. Federal Reserve Bank issued in August 2013 an instruction according to which certain financial institutions included in the instruction (domestic and foreign) would be required to make an annual payment to the Federal Reserve Bank in respect of expenses incurred in the supervision of their operations. According to the criteria in the instructions, Discount Bank, as a bank holding company with total assets (on a consolidated basis) of over US$50 billion, is subject to the instruction and to the payment under it. Since 2012, and in accordance with the demand of the U.S. authorities, the Bank makes an annual payment, as stated.

Section 165 - Enhanced Prudential Standards Final Rule. The U.S. Federal Bank issued in February 2014 instructions regarding the implementation of enhanced requirements relating to the supervision over bank holding corporations in the U.S., as well as over foreign banks operating in the U.S. including, among other things, enhanced requirements as to liquidity, equity capital and risk management. The instruction entered into effect in July 2016. A review of the relevant instructions indicates that whereas the Bank complies with the requirements of the Israeli Regulator with respect to capital and liquidity tests, this legislation has no material impact upon the manner of its operation. The Bank is preparing for the implementation of the provisions of the legislation, including the establishment of a committee for the management of U.S. risks (operating within the framework of the Risk Management Committee of the Board of Directors), as well as the modification of the Bank's annual and quarterly reports to the U.S. authorities in the matters of capital and liquidity.

VARIOUS LEGISLATION MATTERS

ELECTRONIC CLEARING OF CHECKS BILL, 2016

The Act passed its second and third readings by the Knesset on February 1, 2016. The Bill requires transition from the physical clearing of checks to electronic clearing, namely, the keeping of the checks with the bank at which they are presented for payment and the delivery to the bank on which the checks are drawn of photocopies of the checks. The Act takes effect six months after publication date; however, up to eighteen months from the date on which the Act takes effect, both physical and electronic clearing of checks may be made concurrently.

REMUNERATION OF OFFICERS OF FINANCIAL CORPORATIONS ACT, 2016

The Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016, (hereinafter: "the Act") was published on April 12, 2016. The Act applies to financial corporations, among which are banking corporations, and it prescribes instructions applying to remuneration payable to officers and employees of banking corporations.

The Act states that an engagement for the granting of remuneration to a senior officer or an employee of a banking corporation, the expected cost of which exceeds NIS 2.5 million per year, requires the approval of the Remuneration Committee, the Board of Directors with a special majority vote of independent Directors, and the General Meeting of Shareholders with a special majority vote.

In addition, the Act states that the ratio between the forecasted expense in respect of the remuneration, based on a full-time position, and the expense in respect of the lowest remuneration paid by the bank to an employee, will not exceed 35. An engagement regarding remuneration, which is not approved in accordance with the provisions of the Act, shall not be valid both in respect of the financial corporation and in respect of the senior officer or the employee.

Moreover, the Act provides for a restriction on the deductibility tax wise of a remuneration, the amount of which exceeds NIS 2.5 million, according to which, the maximum amount allowed for deduction tax wise of a payroll expense exceeding NIS 2.5 million per annum, would be NIS 2.5 million, net of an expense in respect of the granting of shares or the right to receive shares, and after deducting the payroll expense in excess of NIS 2.5 million.

The transitional instructions determine that the provisions of the Act shall apply to engagements for remuneration approved as from date of publication of the Act and thereafter. Moreover, it is determined that the provisions of the Act shall apply to engagements for remuneration approved prior to the date of publication of the Act, and which requires approval within six months from date of publication of the Act.

The provisions regarding the tax deduction shall apply to an existing engagement within six months from date of publication of the Act, and to an engagement approved after date of publication of the Act, as from January 1, 2017.

On September 29, 2016, the High Court of Justice handed down its ruling on the petitions filed by the Association of Banks in Israel and the Israel Insurance Association in relation to the provisions of the Law. The Court rejected the petitions against the legality of the provisions of the law on the subject of restricting the tax treatment and increasing the tax burden, but ruled that a fundamentally interpretative approach should be adopted, pursuant to which the Law is intended to apply to remuneration for future work, and does not apply to rights acquired in consideration for work that the employee performed prior to the end of the transition period prescribed in the Law (October 12, 2016). The Court extended the interim order that it had granted on July 11, 2016, pursuant to which senior employees who will have given notice of their resignation by January 1, 2017 will not lose their entitlement to the full rights due to them for the termination of the employee-employer relationship or termination of their service, had they given notice of their retirement by October 12, 2016. The ruling also prescribed that the outline proposed by the Deputy Attorney General to the Government, according to which, the maximum compensation amount stated in the Act will not apply to payments in respect of severance compensation, in respect of which accounting provisions had been made prior to the effective date of the Act, will be unilaterally binding on the State, and that it will constitute an additional protection for employees' rights, as provided in the terms of the outline.

For details regarding increasing the special fund in respect of exceptional retirement cases, see Note 1 C 5 to the financial statements.

For details regarding the amendment of Proper Conduct of Banking Business Directive No. 301A, following the passing of the Act, see above "Remuneration policy in a banking corporation".

For details regarding the remuneration policy and remuneration agreements signed with the Chairman of the Board and with the President & CEO, which were brought for approval of the General Meeting of Shareholders, held on November 8, 2016, modified to the Remuneration Act, see Note 35 to the financial statements

CREDIT DATA BILL, 2016

The Committee for improvement of the system for participation in the credit data base ("Dorfman Committee") published the final report in August 2015. The report is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. The Act was published on the Official Gazette on April 12, 2016. The Act takes effect 30 months from date of publication thereof.

The Act is intended to replace the existing Act and according to it, the Bank of Israel is to establish and manage a central credit data base having at its center a public credit data base. The arrangement in the Act will create a system that would include a public participant (The Bank of Israel) as well as many private participants, including also credit offices. Data would be assembled from sources determined in the Act (the Official Receiver, Debt Execution Offices, The Bank of Israel, Courts of Law, a public infrastructure corporation, banking corporations, issuers of charge cards), would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit.

Following the publication of the Act, draft Credit Data Regulations, 2016, and the draft of the rules of the Credit Data (various instructions) Act, 2016, were published, with the aim of complementing the provisions of the Act and outlining supporting instructions regarding specific arrangements, which are not regulated by the Act itself.

For the purpose of applying the law, the Bank of Israel is working to establish a central database for sharing credit data.

On March 16, 2017, the Bank of Israel published a revised version of the transitional instruction detailing the data held by the banks and the credit card companies that it is planned to be reported by them to the database and kept there. The circular that accompanied the provisional instruction details milestones for its implementation. The Bank is making preparations for the directives' implementation.

The Bank of Israel published in August 2016, a tender for choosing the supplier for the establishment and operation of the central database by the Bank of Israel.

The Bank of Israel published in August 2016, drafts of its licensing policy for credit offices and for trader information offices.

THE BANKING ACT (LICENSING) (AMENDMENT NO. 22) (CLOSURE OF BRANCHES), 2016

The Act was published on the Official Gazette on August 16, 2016. The principles of the Act: authorizing the Supervisor of Banks to approve, object or set conditions in relation to a request from a banking corporation to close a branch. It is also prescribed that, if a decision is made consenting to the closure of a branch, the banking corporation shall announce this to its customers in writing and shall only be entitled to close the branch after 60 days have elapsed from the date of giving such notice to the customers. See below "Proper Conduct of Banking Business Directive No. 400 – Closure of bank branches and reduction in teller services".

THE PLEDGE BILL

The Bill was published during the month of July 2015. For details, see 2015 Annual Report (p. 486).

A SAVINGS FUND FOR EVERY CHILD UP TO THE AGE OF 18 PLAN

As part of the economic plan for the years 2015-2016, the Knesset approved a raise in child allowances. Within this context, it was resolved to establish the plan. The Knesset Committee approved on September 6, 2016, the National Insurance Regulations (Long-Term Children's Savings), 2016 that sets forth the principles of the plan. Following are the principal issues of the plan: commencing from January 1, 2017, the National Insurance Institute ("NII") will deposit NIS 50 a month for each child in a specially designated savings account in the child's name; upon the child reaching the age of 3, the NII will deposit a further amount of NIS 250 and when the child reaches the age of thirteen – an additional amount of NIS 250; if the child opts to defer the date for withdrawing the savings until the age of 21, the NII will deposit a further amount of NIS 500 on the date of the child reaching the age of 21; the state will bear all the costs of managing the account until the child reaches the age of 21; the default option for those reaching the age of fifteen is the banking corporation to which the allowance for that child is transferred, and in respect of children not yet fifteen years of age - for the savings to be managed in an investments provident fund, in a solid

track, as prescribed by the Capital Market Supervisor at the Ministry of Finance (“the Supervisor”); parents have been given the possibility to contribute a further NIS 50 to the savings account from the child allowance; deciding on the savings channel and also selecting the investment track for managing their child’s savings. Based on the estimates of the Ministry of Finance, the funds deposited within the framework of the plan should provide a sum of approx. NIS 20,000 for each child after 18 years.
The Bank, like additional banking corporations, has competed in the tender and was successful.

PUBLIC COMMITTEES

REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY

On March 19, 2013, the team examining the increase of competition in the banking industry submitted its final report, the team ("Zaken Committee"). The final report included recommendations regarding various issues, intended to increase competition in the banking industry, among which were increasing the number of market participants, improving the credit data area, increasing the power of the customer and simplification of the banking product. Following the recommendations of the report, amendments were made to the primary legislation and in the instructions that are the authority of the Supervisor of Banks and the Governor of the Bank of Israel. The said legislation and standards proceedings caused in the relevant years and since then, impairment to the income of banking corporations.
For details regarding instructions introduced in the wake of the committee's recommendations, see the 2015 Annual Report (pp. 488-491).

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 367 – DIGITAL BANKING

The Directive, which took effect on January 1, 2017, was published on July 21, 2016. This Directive regularizes in a single instruction the matter of online banking, which includes also the regulation of telephonic service as a communication channel and the matter of opening a bank account via the Internet. The directive represents a material change in the Banking Supervision Department’s approach and it aims to remove the existing barriers to further developments in digital banking and provide flexibility to the banking corporations in implementing changing technologies without first having to apply to the Banking Supervision Department in every case. In accordance with this approach, the directive includes principles and leaves it to the banking corporations’ discretion to provide the services based on a risk assessment. In accordance with the directive, the banking corporations are required to determine a policy covering all matters relating to the management of digital banking risks, including data protection risks, fraud and embezzlement, legal risks and reputational risks.

CIRCULAR REGARDING THE TYPE OF ACCOUNTS AND THE TERMS, IF EXISTING, WHICH WOULD OBVIATE THE SIGNATURE OF THE CUSTOMER ON AGREEMENTS

The circular was published on August 7, 2016. The circular states that with respect to the agreements mention therein (agreement for the opening and management of a current account, online banking agreement, agreement for the deposit of funds for periods exceeding one year, agreement for the granting of credit, excluding housing loans, securities deposit agreement, agreement regarding receipt of an ATM operating card and agreement for telephonic instructions), the customer's signature would not be required, on condition that the customer would declare via the Internet or via the application of the banking corporation, that he had been given the opportunity to review the agreement. It is also determined that it would be possible to sign an online banking agreement and a telephonic instructions agreement by way of a recorded phone conversation or through a documented computerized answering service, on condition that the agreement in writing would be delivered to the customer prior to date of entry into the agreement and that the customer was given the possibility to review the agreement prior to signing it.
The circular took effect on date of publication; however as regards banking corporations to which Directive No. 435 (Telephonic instructions) applies, the requirement regarding telephonic instruction agreement shall apply as from the revocation date of Directive 435, namely, January 1, 2017.

JOINT OUTLINE OF THE ENFORCEMENT AND COLLECTION AUTHORITY AND THE BANKING SUPERVISION DEPARTMENT FOR ATTENDING TO SHORTCOMINGS REVEALED IN THE STATE COMPTROLLER'S REPORT, "DEBT COLLECTION MECHANISM AT THE DEBTS EXECUTION OFFICE"

On October 10, 2016, the Banking Supervision Department published an outline for attending to the shortcomings and recommendations set forth in the State Comptroller's report on the Enforcement and Collection Authority. Inter alia, shortcomings were revealed in case files opened in the Debts Execution system, resulting in the apparent over-collection of debts. According to the outline the Enforcement and Collection Authority is to identify the case files where incorrect interest was apparently charged. If the error was caused by the banking corporation, it will have to recalculate the interest so that the debt can be corrected in the Debts Execution Office case file. If the error was caused by the Debts Execution Office, it will act to recalculate the debt and to correct the balance thereof, through ordering the banking corporation to make a refund or setoff. Pursuant to the outline, any excess amount collected by the banking corporation is to be refunded to the debtor together with interest and linkage differences. The outline further determines, that with respect to cases where the debt is secured by a mortgage on a residential unit, each banking corporation has to decide whether to perform a specific examination of all debt execution files closed since January 2008, or, alternatively, provide a declaration stating that, at a very high level of certainty, no excess collection had been made in these cases. Where a bank decides to perform a specific examination, it has to be completed by November 30, 2017.

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 400 – CLOSING DOWN OF BANK BRANCHES AND REDUCING BANK TELLER SERVICES

The Directive was published on January 9, 2017. The object of the Directive is to regularize the process of closure of branches, reduction of teller services and the shifting to online services granted by the banking sector. The Directive requires banks, inter alia, to: form a designated policy in the matter of branches and the shifting to online banking and supporting procedures. The instruction included different provisions regarding the decision to shutdown a branch or reduce teller services; the manner of shutting down a branch or reducing teller services, including the continuation of cash withdrawal services at an appropriate level and the level of service at the alternative digital service stations; the contents of the approach to the Supervisor of Banks regarding the shutting down of a branch; the announcement to customers regarding the shutting down of a branch or the reduction in services. The Directive took effect on date of publication with the exclusion of the sections relating to the manner and contents of the notice to customers regarding the closure of a branch or the discontinuation of teller services in the branch, which take effect sixty days following the date of publication. The Directive applies mainly to the closure of permanent branches (a change in the format of operation of the branch from a manned branch to a site that includes self-service automatic stations only, is considered a closing down of a branch) and relates to cases in which it does not apply.

CIRCULAR REGARDING THE FORMAT OF THE PERMIT FOR THE OPENING OF PARTIAL SERVICE AND MOBILE BRANCHES

On February 28, 2016, the text of the permit was distributed, establishing that banking corporations would be permitted to provide service to customers who prefer the traditional banking service channels over the use of technological means, in areas where no economic justification exists for the opening of a full service branch. The permit would allow the operation of partial service branches in different locations, which might be operated even by means of a mobile branch, everything in accordance with the terms of the permit. A bank wishing to operate in accordance with the format of the permit, shall apply to the Supervisor of Banks, this after holding a discussion of the policy in the matter of operating the branches as stated by the Board of Directors.

LETTER OF THE DEPUTY SUPERVISOR OF BANKS – REMOVAL OF PLEDGES SECURING CREDIT THAT HAD BEEN REPAID

The letter was published on August 31, 2015, requiring banking corporations to improve the data existing at banks and at the respective Registrars, and act towards the removal of pledges registered to secure charges that had been repaid, from the year 1994. The Bank is preparing for the implementation of that stated in the letter. On September 29, 2016, the Supervisor of Banks granted an extension for dates of implementation of the provisions of the letter, relating to each registration separately.

BANK HOLDING PERMITS TO ENTITIES MANAGING CUSTOMER FUNDS – REVISED POLICY

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for "clients", shall not exceed 5% of any class of the banking corporation's means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation's means of control. All holding permits shall be granted for a set term, until December 31, 2019.

Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

AMENDMENT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 420 – DELIVERY OF DIGITAL NOTICES

An amendment to the Directive was published on July 21, 2016, with the aim of improving and increasing the efficiency of delivery of information to customers. The principal points of the amendment are: granting banking corporations the possibility of sending to customers online most of the notices previously sent by mail, as well as notices and transaction documents provided in the branches; granting banking corporations the possibility of providing customers with an online warning notice service, designed to assist the customer in managing his account; requiring banking corporations to send SMS notices to customers in the following cases: the return of five checks drawn on his account, limitations imposed on the account, an exceptional transaction made in the account; facilitating the joining of mail services, both as regards expanding the communication channels available for joining the service and the relief granted for attaching of joint accounts (upon request of one of the parties to the account). In principle, the amendment became effective upon its publication.

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 436 IN THE MATTER OF "PROJECT FOR LOCATING DORMANT DEPOSITS AND ACCOUNTS OF DECEASED CUSTOMERS"

The Bank of Israel published on September 12, 2016, a Proper Conduct of Banking Business Directive regarding "a project for locating dormant deposits and accounts of deceased customers". The object of the project is to assist customers of banking corporations to locate dormant deposits and accounts of deceased customers, of whatever amount, by means of an Internet platform.

Within the framework of the project, information would be made accessible to the public at no cost, by means of the Internet, and which would include only the name of the banking corporation at which the dormant deposit or the accounts/deposits of a deceased person are being held. Additional and more detailed information, including the type of account/deposit and the balance of funds held therein may be obtained by the customer only from the banking corporation holding the account.

Within the framework of the project, the banking corporation is obliged, among other things, to present information and a link to the project on its Internet website; appoint a designated officer to handle approaches; and adopt appropriate procedures for the handling of approaches and identification of customers/heirs. In addition, instructions concerning the removal from the project of information relating to a customer were determine, at the request of the customer. The instruction takes effect on its publication date.

For the purpose of setting up the information infrastructure for the project, a reporting instruction to the Supervisor of Banks No. 839 was published on March 8, 2016, in the matter of the information which banks have to provide regarding dormant deposits and accounts of deceased persons, starting with May 15, 2016.

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 403 – NON-BANKING BENEFITS TO CUSTOMERS

The Supervisor of Banks issued on July 11, 2016, an amendment to Proper Conduct of Banking Business Directive No. 403. The amendment is intended to broaden the possibilities available to banking corporations for the granting of non-banking benefits to their customers, in respect of the current conduct of the customer in his account, with a view of improving the customer's experience regarding the Bank, promote digital banking, encourage appropriate conduct regarding the account and increase competition. All this, without damaging the ability of customers to compare banking services offered to them, to distinguish between the value of the non-banking benefits and the value of the banking products, and without subjecting the non-banking benefits to binding terms. The instruction takes effect on date of its publication. A draft amendment to the Directive was published on January 19, 2017, which states instructions for the providing of notice to customers prior to a change in or termination of a benefit program. The Consumer Protection Bill (Amendment No. 51) (Change or termination of consumer benefit program), 2017, was published in March 2017, within the framework of which it is proposed to introduce arrangements similar to those determined in the draft amendment to Proper Conduct of Banking Business Directive No. 403, in the matter of changing or terminating a consumer benefit program, and applies the provisions of the amendment, with required modifications, also to a benefit program operated by a banking corporation which is also an issuer under the Charge Card Act.

REDUCING THE REPORTING TO THE SUPERVISION DEPARTMENT DIRECTIVES

Following a review made by the Supervisor of Banks regarding the focusing, reduction and adaptation of the Regulations and the reporting instructions to the supervisory requirements, a circular was published on June 22, 2016, according to which a number of reporting instructions to the Supervisor of Banks were withdrawn and other reporting instructions were amended.

DRAFT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 301 – BOARD OF DIRECTORS

An amended draft of Proper Conduct of Banking Business Directive No. 301 Amendment was published on February 7, 2017. The updates to the Directive are intended to improve the effectiveness of the work of the board of directors and increase the professional qualifications of the board as an organ. The draft enlarges the list of items which the board of directors may delegate to board committees in order to enable the board to concentrate on strategic matters and on material risks.

Moreover, it is proposed in the draft to reduce the maximum number of directors required at present in accordance with the Directive from 15 to 10 directors. A requirement was added for the adoption of a policy in respect of the maximum length for the period of office of the chairman of the board. It is proposed to increase the minimum rate of directors having "banking experience" from one fifth to one third, as well as to update the qualifications required for "having banking experience". A requirement was added according to which at least one of the directors defined as having accounting and financial expertise should be one having demonstrable experience or expertise in financial statements of financial corporation, and at least one of the director having demonstrable experience in the field of information technology. It is further proposed to determine that the Audit Committee may act also as a Remuneration Committee, on condition that its composition complies with the requirements applying to the Remuneration Committee.

A NEW DRAFT DIRECTIVE – PROPER CONDUCT OF BANKING BUSINESS, RESPONSE BY TELEPHONE

A draft instruction was published on January 23, 2017, referring to the duty of each banking corporation to provide its customers with a telephone call center that will provide human response to customers. It also defines the availability of the call center and the response time to the customer.

DRAFT LETTER OF THE SUPERVISOR OF BANKS IN THE MATTER OF MORTGAGE CONSULTANTS

The Supervisor of Banks issued on February 13, 2017, an updated draft of a letter in the matter of consulting customers by external mortgage consultants.

The object of the letter is to ensure on the one hand, that customers wishing to be represented by a mortgage consultant could do so, but on the other hand, to reduce to the extent possible, the risks to which the bank and customers might be exposed due to representation by an external consultant. According to the draft, a bank may not refuse to the presence of a consultant on behalf of the customer, unless information exists, which raises reasonable concern regarding damage to the customer or to the bank. A banking corporation is required to establish procedures for work vis-à-vis a consultant, within the framework of which it will verify that the consultant has authority to act on behalf of the customer, act to maintain privacy of the customer, determine procedures for the delivery of documents to the customer and situations in which the presence of the customer is required in the process of granting the loan. According to the draft, the effective date is June 1, 2017.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

ABUNDANCE OF LEGISLATION INITIATIVES

Also the year 2016, as years preceding it, was characterized by numerous proposed legislations and new regulation provisions, published by the different Regulators, including the Supervisor of Banks. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

TAXATION

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.

Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made.

A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

For additional details regarding "taxation", see Note 8 to the financial statements.

LEGAL PROCEEDINGS

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

ADDITIONAL LEGAL PROCEEDINGS

Legal proceedings against IDB (Swiss) Bank. On November 4, 2011, a former Vice President and Risk manager of IDB (Swiss) Bank, submitted to the Labor Court in Geneva a claim in the amount of SFR 2 million against IDB (Swiss) Bank. The claim raised various arguments against the bank concerning his dismissal from office and his rights in this respect.

Additional proceedings in this respect were conducted in Israel by the Claimant. The proceedings ended on February 18, 2016, in a compromise agreement. For additional details see the 2015 annual report (p.496).

Motion for approval of a class action by employees who had elected early retirement. A claim against the Bank and others was filed with the Regional Labor Court on March 24, 2013, together with a motion for approval of the claim as a class action suit against the Bank and Mercantile Discount Bank. The Court was requested to define the group in whose name the motion for a class action suit was filed, as all permanent employees who had voluntarily elected early retirement.

The Claimant argues that there are four salary components (health insurance, reimbursement of medical expenses, taxable excess further education fund contributions and over the maximum provident fund contributions) that had been paid regularly as part of the monthly salary voucher during the period in which employer/employee relations existed. He further argues that the said components comprise under the law, components of the salary amount that serves as a basis for the computation of the severance pay amount payable, and accordingly should also be part of the salary amount serving as a basis for computing the remuneration paid upon voluntary early retirement.

The amount of the claim in respect of the whole group members was estimated by the Claimant at NIS 40 million.

On June 19, 2016, the Court dismissed the motion for approval of the action as a class action suit. Moreover, the Court ruled for the dismissal in limine, of the action against MDB and against Benefit Company. In addition, the Court instructed the Plaintiff to inform until July 21, 2016, how, if at all, he intends to continue with his personal action.

On July 21, 2016, the Plaintiff informed of his intention to appeal against the ruling of the Court. On August 10, 2016, the Plaintiff submitted a statement to the Court, according to which he insists upon continuing his personal claim, subject to the results of the appeal. The Court stated that the Bank has to submit a defense brief by November 30, 2016, and also fixed a preliminary hearing for January 15, 2017. On September 11, 2016, the Plaintiff filed an appeal with the National Labor Court against the decision to dismiss his motion for approval of the claim as a class action suit.

The Registrar of the National Labor Court decided on November 26, not to admit the appeal due to its late submission. On January 9, 2017, the Registrar decided to admit the motion for appeal and to cancel the previous dismissal decision.

Motion for the submission of evidence and disclosure of documents. Publications appearing recently in the media state that within the framework of an appeal against tax assessments issued to an Australian company by the Australian Tax Authorities, the Court in Australia admitted the request of the Australian tax authorities to an order for the submission of evidence and disclosure of documents by MDB, through the Chairperson of MDB, Ms. Lilach Asher-Topilsky with respect to the operations of the Australian company with MDB in the period from 1997 to 2009. The appeal of the Australian company to allow the giving of evidence by Ms. Lilach Asher-Topilsky, was admitted on July 12, 2016, and the decision of the Court in Australia was cancelled. As detailed to the Bank, this decision is not absolute and may be appealed against, and alternatively it is possible to submit a new appeal.

Approach in accordance with Section 198A of the Companies Act. 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 26, item 13.4 to the financial statements).

For additional details regarding different legal proceedings, see Note 26 C, items 12 and 13, and Note 36 E to the financial statements.

SIGNIFICANT LEGAL PROCEEDINGS SETTLED IN 2016

1. A lawsuit against the Bank was filed with the Tel Aviv District Court on March 3, 2016, together with a motion for its approval as a class action suit. The Claimant stated the amount of the claim for all members of the class at NIS 100 million. On April 17, 2016, the Court admitted the withdrawal from the motion.
2. On September 12, 2006 a lawsuit was filed against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks. A Court ruling approving the compromise arrangement, submitted by the parties, was given on May 15, 2016. For additional details, see Note 10, item 4.1, in the third quarter of 2016 report (p. 145).
3. On November 23, 2006 a lawsuit was filed to the Jerusalem District Court together with a motion for its approval as a class action suit against the Bank, Bank Hapoalim and Bank Leumi (for additional details, see Note 10, item 4.3, in the third quarter of 2016 report, p. 145). The claimants assessed the amount of the claim at between NIS 5.2 and NIS 5.6 billion for all the defendant banks. A Court ruling approving

the compromise arrangement was given on May 15, 2016, filed by the parties on February 25, 2016. For additional details, see Note 10, item 4.2, in the third quarter of 2016 report (p. 145).

4. A lawsuit together with a motion for approval of the suit as a class action suit was submitted on October 11, 2012, to the Tel Aviv District Court, against the Bank, FIBI, Leumi Bank and Mizrahi Bank. A verdict was given on November 15, 2016, approving the withdrawal of the Appellants. For additional details, see Note 10, item 4.3, in the third quarter of 2016 report (p. 145).

PROCEEDINGS REGARDING AUTHORITIES

1) For details regarding various proceedings by the Antitrust Commissioner and concerning the Group's activities in the credit card field, see Note 36 B 1 and 2 to the financial statements.
2) For details regarding the arrangement in lieu of criminal proceedings, signed in November 2016, between the economic department of the State Attorney Office and ICC, see Note 36 E.
3) 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.
4) For details regarding the agreement between the Government of Switzerland and the U.S. Department of Justice and its possible implications on IDB (Swiss), see Note 26 C 15 to the financial statements.

MISCELLANEOUS

ENVIRONMENTAL QUALITY

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank. One of the Bank’s targets as regards the environment is to reduce the indirect effect, as stated.

Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time. For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

APPENDICES TO THE ANNUAL REPORT

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

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

	2016			2015			2014		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:(3)									
In Israel	105,988	4,248	4.01	96,033	3,840	4.00	92,791	4,059	4.37
Outside Israel	21,220	776	3.66	21,497	758	3.53	19,307	685	3.55
Total credit to the public	**127,208**	***5,024**	**3.95**	**117,530**	***4,598**	**3.91**	**112,098**	***4,744**	**4.23**
Credit to the Government:									
In Israel	599	18	3.01	514	16	3.11	1,686	13	0.77
Outside Israel	12	(10)-	-	40	2	5.00	48	2	4.17
Total credit to the Government	**611**	**18**	**2.95**	**554**	**18**	**3.25**	**1,734**	**15**	**0.87**
Deposits with banks:									
In Israel	3,229	11	0.34	3,482	10	0.29	2,696	11	0.41
Outside Israel	633	8	1.26	2,050	15	0.73	2,498	25	1.00
Total deposits with banks	**3,862**	**19**	**0.49**	**5,532**	**25**	**0.45**	**5,194**	**36**	**0.69**
Deposits with central banks:									
In Israel	16,362	16	0.10	19,381	25	0.13	14,043	84	0.60
Outside Israel	1,462	7	0.48	1,817	4	0.22	1,381	4	0.29
Total deposits with central banks	**17,824**	**23**	**0.13**	**21,198**	**29**	**0.14**	**15,424**	**88**	**0.57**
Securities borrowed or purchased under resale agreements:									
In Israel	295	(10)-	-	461	(10)-	-	589	2	0.34
Total securities borrowed or purchased under resale agreements	**295**	**-**	**-**	**461**	**-**	**-**	**589**	**2**	**0.34**
Bonds held for redemption and available for sale:(4)									
In Israel	23,500	295	1.26	22,382	268	1.20	23,316	448	1.92
Outside Israel	10,798	248	2.30	12,988	305	2.35	14,086	354	2.51
Total bonds held for redemption and available for sale	**34,298**	**543**	**1.58**	**35,370**	**573**	**1.62**	**37,402**	**802**	**2.14**
Trading bonds:(4)									
In Israel	3,167	11	0.35	1,983	2	0.10	2,116	22	1.04
Outside Israel	200	1	0.50	588	1	0.17	51	1	1.96
Total trading bonds	**3,367**	**12**	**0.36**	**2,571**	**3**	**0.12**	**2,167**	**23**	**1.06**
Other assets:									
In Israel	-	(9)12	-	-	(9)2	-	-	(9)5	-
Outside Israel	703	20	2.84	692	19	2.75	622	21	3.38
Total other assets	**703**	**32**	**4.55**	**692**	**21**	**3.03**	**622**	**26**	**4.18**
Total interest bearing assets	**188,168**	**5,671**	**3.01**	**183,908**	**5,267**	**2.86**	**175,230**	**5,736**	**3.27**
Debtors in respect of credit card operations	6,082			5,825			5,612		
Other non-interest bearing assets(5)	15,409			15,935			16,771		
Total assets	**209,659**			**205,668**			**197,613**		
Of which: Total interest bearing assets attributable to operations outside Israel	35,028	1,060	3.03	39,672	1,104	2.78	37,993	1,092	2.87
* Commissions included in interest income from credit to the public		306			344			289	

For footnotes see page 421.

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

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

	2016			2015			2014		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	29,429	4	0.01	23,192	4	0.02	17,287	15	0.09
In Israel - Time deposits	75,667	356	0.47	75,434	290	0.38	85,008	626	0.74
Total deposits from the public in Israel	**105,096**	**360**	**0.34**	**98,626**	**294**	**0.30**	**102,295**	**641**	**0.63**
Outside Israel - On call	13,462	65	0.48	14,160	66	0.47	12,573	59	0.47
Outside Israel - Time deposits	7,945	79	0.99	[11]10,034	[11]68	0.68	[11]10,072	[11]69	0.69
Total deposits from the public outside Israel	**21,407**	**144**	**0.67**	**24,194**	**134**	**0.55**	**22,645**	**128**	**0.57**
Total deposits from the public	**126,503**	**504**	**0.40**	**122,820**	**428**	**0.35**	**124,940**	**769**	**0.62**
Deposits from the Government:									
In Israel	234	3	1.28	271	3	1.11	361	4	1.11
Outside Israel	54	[10]-	-	[11]56	[10][11]-	-	85	[10][11]-	-
Total deposits from the Government	**288**	**3**	**1.04**	**327**	**3**	**0.92**	**446**	**4**	**0.90**
Deposits from banks:									
In Israel	3,017	11	0.36	3,446	12	0.35	2,909	28	0.96
Outside Israel	1,204	19	1.58	1,247	18	1.44	1,284	18	1.40
Total deposits from banks	**4,221**	**30**	**0.71**	**4,693**	**30**	**0.64**	**4,193**	**46**	**1.10**
Securities loaned or sold under repurchase agreements:									
Outside Israel	3,660	146	3.99	3,843	149	3.88	3,739	143	3.82
Total securities loaned or sold under repurchase agreements	**3,660**	**146**	**3.99**	**3,843**	**149**	**3.88**	**3,739**	**143**	**3.82**
Bonds and subordinated debt notes:									
In Israel	8,927	415	4.65	10,022	427	4.26	10,993	552	5.02
Total bonds and subordinated debt notes	**8,927**	**415**	**4.65**	**10,022**	**427**	**4.26**	**10,993**	**552**	**5.02**
Other liabilities:									
In Israel	89	[9]4	4.49	67	[9]5	7.46	134	[9]4	2.99
Total other liabilities	**89**	**4**	**4.49**	**67**	**5**	**7.46**	**134**	**4**	**2.99**
Total interest bearing liabilities	**143,688**	**1,102**	**0.77**	**141,772**	**1,042**	**0.73**	**144,445**	**1,518**	**1.05**
Non-interest bearing deposits from the public	36,972			35,458			25,552		
Creditors in respect of credit card operations	6,651			6,331			6,167		
Other non-interest bearing liabilities[6]	8,554			9,124			9,378		
Total liabilities	**195,865**			**192,685**			**185,542**		
Total capital resources	**13,794**			**12,983**			**12,071**		
Total liabilities and capital resources	**209,659**			**205,668**			**197,613**		
Interest margin		**4,569**	**2.24**		**4,225**	**2.13**		**4,218**	**2.22**
Net return on interest bearing assets:[7]									
In Israel	153,140	3,818	2.49	144,236	3,422	2.37	137,237	3,415	2.49
Outside Israel	35,028	751	2.14	39,672	803	2.02	37,993	803	2.11
Total net return on interest bearing assets	**188,168**	**4,569**	**2.43**	**183,908**	**4,225**	**2.30**	**175,230**	**4,218**	**2.41**
Of which: Total interest bearing liabilities attributable to operations outside Israel	26,325	309	1.17	29,340	301	1.03	27,753	289	1.04

For footnotes see page 421.

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

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

	2016			2015			2014		
	Average balance[(2)]	Interest income (expense)	Rate of income (expense)	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 %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	117,415	3,707	3.16	108,868	3,345	3.07	99,165	3,547	3.58
Total interest bearing liabilities	(88,271)	(278)	(0.31)	(80,332)	(309)	(0.38)	(79,329)	(581)	(0.73)
Interest margin		**3,429**	**2.85**		**3,036**	**2.69**		**2,968**	**2.85**
CPI-linked shekels:									
Total interest bearing assets	19,708	500	2.54	19,751	481	2.44	23,109	671	2.90
Total interest bearing liabilities	(12,679)	(408)	(3.22)	(15,173)	(364)	(2.40)	(18,029)	(555)	(3.08)
Interest margin		**92**	**(0.68)**		**117**	**0.04**		116	**(0.18)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	16,017	404	2.52	15,617	337	2.16	14,963	426	2.85
Total interest bearing liabilities	(16,413)	(107)	(0.65)	(16,927)	(68)	(0.40)	(19,334)	(93)	(0.48)
Interest margin		**297**	**1.87**		**269**	**1.76**		**333**	**2.37**
Total operations in Israel:									
Total interest bearing assets	153,140	4,611	3.01	144,236	4,163	2.89	137,237	4,644	3.38
Total interest bearing liabilities	(117,363)	(793)	(0.68)	(112,432)	(741)	(0.66)	(116,692)	(1,229)	(1.05)
Interest margin		**3,818**	**2.33**		**3,422**	**2.23**		**3,415**	**2.33**

For footnotes see next page.

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

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

	2016 Compared to 2015			2015 Compared to 2014		
	Increase (decrease) due to change[8]			Increase (decrease) due to change[8]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	399	9	408	130	(349)	(219)
Outside Israel	(10)	28	18	77	(4)	73
Total credit to the public	**389**	**37**	**426**	**207**	**(353)**	**(146)**
Other interest bearing assets:						
In Israel	(8)	48	40	25	(287)	(262)
Outside Israel	(90)	28	(62)	(10)	(51)	(61)
Total other interest bearing assets	**(98)**	**76**	**(22)**	**15**	**(338)**	**(323)**
Total interest income	**291**	**113**	**404**	**222**	**(691)**	**(469)**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	22	44	66	(11)	(336)	(347)
Outside Israel	(19)	29	10	[11]9	[11](3)	6
Total deposits from the public	**3**	**73**	**76**	**(2)**	**(339)**	**(341)**
Other interest bearing liabilities:						
In Israel	(54)	40	(14)	(19)	(122)	(141)
Outside Israel	(8)	6	(2)	[11]1	[11]5	6
Total other interest bearing liabilities	**(62)**	**46**	**(16)**	**(18)**	**(117)**	**(135)**
Total interest expenses	**(59)**	**119**	**60**	**(20)**	**(456)**	**(476)**
Interest income, net	**350**	**(6)**	**344**	**242**	**(235)**	**7**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 6 million and NIS 282 million, respectively; 2015 – NIS 3 million and NIS 437 million respectively; 2014 – NIS 9 million and NIS 426 million respectively.

(5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

(9) Interest income on other assets and interest expenses on other liabilities include income tax interest income and expenses, respectively.

(10) An amount lower than NIS 1 million.

(11) Reclassified, see Note 1 G.

APPENDIX NO. 2 - CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR EACH QUARTER - MULTI QUARTER DATA

	2016			
Quarter	4	3	2	1
	In NIS millions			
Interest income	1,432	1,519	1,494	1,226
Interest expenses	262	332	339	169
Interest income, net	1,170	1,187	1,155	1,057
Credit loss expenses	224	141	58	46
Net interest income after credit loss expenses	**946**	**1,046**	**1,097**	**1,011**
Non-interest Income				
Non-interest financing income	179	51	428	96
Commissions	653	675	633	624
Other income	6	5	27	62
Total non-interest income	**838**	**731**	**1,088**	**782**
Operating and other Expenses				
Salaries and related expenses	866	830	861	859
Maintenance and depreciation of buildings and equipment	254	272	268	273
Other expenses	338	373	335	285
Total operating and other expenses	**1,458**	**1,475**	**1,464**	**1,417**
Profit before taxes	326	302	721	376
Provision for taxes on profit	172	126	272	183
Profit after taxes	154	176	449	193
Bank’s share in profit (loss) of affiliated companies, net of tax effect	3	15	(2)	(1)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	157	191	447	192
Attributed to the non-controlling rights holders in consolidated companies	(12)	(3)	(54)	(13)
Net Profit attributed to bank's shareholders	**145**	**188**	**393**	**179**
Basic Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**(1)0.13**	**0.18**	**0.37**	**0.17**

Footnote:

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

APPENDIX NO. 2 - CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR EACH QUARTER - MULTI QUARTER DATA (CONTINUED)

	2015			
Quarter	4	3	2	1
	In NIS millions			
Interest income	1,234	1,401	1,550	1,082
Interest expenses	191	334	455	62
Interest income, net	1,043	1,067	1,095	1,020
Credit loss expenses (reversal expenses)	98	85	(28)	32
Net interest income after credit loss expenses	**945**	**982**	**1,123**	**988**
Non-interest Income				
Non-interest financing income	46	30	102	185
Commissions	649	650	655	657
Other income	1	42	14	22
Total non-interest income	**696**	**722**	**771**	**864**
Operating and other Expenses				
Salaries and related expenses	873	820	832	871
Maintenance and depreciation of buildings and equipment	289	294	291	284
Other expenses	292	306	295	278
Total operating and other expenses	**1,454**	**1,420**	**1,418**	**1,433**
Profit before taxes	187	284	476	419
Provision for taxes (tax savings) on profit	122	102	190	154
Profit after taxes	65	182	286	265
Bank's share in profit of affiliated companies, net of tax effect	4	3	2	-
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	69	185	288	265
Attributed to the non-controlling rights holders in consolidated companies	(9)	(17)	(18)	(13)
Net Profit attributed to bank's shareholders	**60**	**168**	**270**	**252**
Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**0.06**	**0.16**	**0.26**	**0.24**

APPENDIX NO. 3 - CONDENSED CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA

	2016				2015			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	29,311	25,873	26,784	29,210	28,518	27,672	31,205	31,410
Securities	38,818	37,491	38,053	38,064	38,935	39,251	36,590	37,052
Securities borrowed or purchased under resale agreements	440	177	288	183	279	173	607	387
Credit to the public	142,904	141,490	135,185	131,272	129,268	125,601	122,257	123,679
Provision for credit loss	(2,144)	(2,175)	(2,093)	(2,069)	(2,052)	(2,009)	(1,978)	(1,961)
Credit to the public, net	140,760	139,315	133,092	129,203	127,216	123,592	120,279	121,718
Credit to Governments	737	727	546	524	515	491	446	409
Investments in affiliated companies	157	151	135	141	144	142	141	142
Buildings and equipment	2,295	2,255	2,290	2,180	2,175	2,177	(3)2,198	(3)2,248
Intangible assets and goodwill	160	160	160	142	142	142	142	142
Assets in respect of derivative instruments	3,283	3,242	3,812	3,761	3,208	3,762	3,523	5,159
Other assets	3,589	4,035	3,713	3,776	3,696	4,117	3,680	(2)4,015
Noncurrent assets held for sale	27	25	9	16	432	5,395	(3)4,851	(3)5,114
Total Assets	**219,577**	**213,451**	**208,882**	**207,200**	**205,260**	**206,914**	**203,662**	**207,796**
Liabilities and Equity								
Deposits from the public	172,318	164,892	(1)162,155	(1)161,633	(1)157,875	(1)153,068	(1)152,303	(1)153,369
Deposits from banks	5,342	5,711	4,539	3,842	3,907	4,833	4,545	5,805
Deposits from the Government	303	314	(1)326	(1)325	(1)306	(1)320	(1)326	(1)342
Securities loaned or sold under buy-back arrangements	3,543	3,538	3,621	3,698	3,833	3,853	3,702	3,910
Subordinated capital notes	8,498	8,798	8,765	8,739	9,570	9,937	9,885	9,802
Liabilities in respect of derivative instruments	3,570	3,900	4,438	4,535	3,475	4,099	4,067	5,249
Other liabilities	11,067	11,730	10,857	10,754	10,985	10,415	10,850	(2)11,236
Liabilities held for sale	-	-	-	47	1,675	6,642	4,524	4,779
Total liabilities	204,641	198,883	194,701	193,573	191,626	193,167	190,202	194,492
Equity capital attributed to the Bank's shareholders	14,512	14,154	13,769	13,270	13,288	13,309	13,039	(2)12,903
Non-controlling rights in consolidated companies	424	414	412	357	346	438	421	401
Total equity	14,936	14,568	14,181	13,627	13,634	13,747	13,460	13,304
Total Liabilities and Equity	**219,577**	**213,451**	**208,882**	**207,200**	**205,260**	**206,914**	**203,662**	**207,796**

Footnotes:

(1) Reclassified - see Note 1 G.

(2) Data improvement regarding to employees benefits.

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

APPENDIX NO. 4 - 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

	December 31, 2016			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non goverment bonds				
Various sectors	2,341	2,376	40	5
Financial services[1]	8,956	8,895	23	84
Total non government bonds	**11,297**	**11,271**	**63**	**89**
Government bonds				
U.S. government	553	549	-	4
Israel Government	16,448	16,564	144	28
Other Governments	373	369	1	5
Total government bonds	**17,374**	**17,482**	**145**	**37**
Total bond in the available-for-sale portfolio	**28,671**	**28,753**	**208**	**126**
	December 31, 2015			
Total non governmental bonds and bills	**11,453**	**11,421**	**60**	**92**
Total government bonds and bills	**15,999**	**16,253**	**269**	**15**
Total available-for-sale bonds	**27,452**	**27,674**	**329**	**107**

APPENDIX NO. 4 - ADDITIONAL DETAILS - SECURITIES PORTFOLIO (CONTINUED)

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS (CONTINUED)

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

	December 31, 2016			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies(2)	1,151	1,154	9	6
Insurance and provident funds	57	58	1	*-
Ginnie Mae	5,933	5,878	7	62
Freddie Mac	515	510	1	6
Fannie Mae	909	902	3	10
Other	391	393	2	*-
Total financial services	**8,956**	**8,895**	**23**	**84**

*An amount lower than NIS 1 million.

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

Western Europe(3)	786	786	6	6
Australia	365	368	3	-
Total banks and banking holding companies	**1,151**	**1,154**	**9**	**6**

(3) Details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe

Britain	276	271	1	6
Switzerland	193	195	2	-
Sweden	41	42	1	-
France	118	118	-	-
Netherlands	65	67	2	-
Germany	93	93	-	-
Total	**786**	**786**	**6**	**6**

APPENDIX NO. 4 - ADDITIONAL DETAILS - SECURITIES PORTFOLIO (CONTINUED)

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

	December 31, 2016			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	(1)1,552	1,596	47	3
Financial services*	897	894	10	13
Total non government bonds	**2,449**	**2,490**	**57**	**16**
Total Government bonds	**3,818**	**4,069**	**251**	**-**
Total bonds in the held-to-maturity portfolio	**6,267**	**6,559**	**308**	**16**
	December 31, 2015			
Total non governmental bonds and bills	**2,974**	**3,065**	**106**	**15**
Total government bonds and bills	**4,029**	**4,344**	**315**	**-**
Total held-to-maturity bonds	**7,003**	**7,409**	**421**	**15**

*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	243	244	4	3
Freddie Mac	392	387	1	6
Fannie Mae	131	129	(2)-	2
Other	131	134	5	2
Total financial services	**897**	**894**	**10**	**13**

Footnotes:

(1) Most of this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 193-156 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

(2) An amount lower than NIS 1 million.

APPENDIX NO. 4 - 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

	December 31, 2016			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	121	119	[(1)]-	2
Financial services	115	114	[(1)]-	1
Total non government bonds	**236**	**233**	**[(1)]-**	**3**
Total government bonds	**2,591**	**2,589**	**2**	**4**
Total bonds in the trading portfolio	**2,827**	**2,822**	**2**	**7**
	December 31, 2015			
Total non governmental bonds	**113**	**112**	**-**	**1**
Total government bonds	**2,014**	**2,008**	**[(1)]-**	**6**
Total US governmental	**835**	**835**	**-**	**-**
Total trading bonds in the trading portfolio	**2,962**	**2,955**	**-**	**7**

Footnote:
(1) An amount lower than NIS 1 million.

APPENDIX NO. 5 - 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 28 to the 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.

APPENDIX NO. 5 - ADDITIONAL DETAILS (CONTINUED)

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(1) Details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank

	As of December 31	As of December 31
	2016	2015
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	2	3
With an AA+ rating	3	1
With an AA rating	260	309
With an AA- rating	158	78
With an A+ rating	782	604
With an A rating	139	306
With an A- rating	231	267
With a BBB+ rating	-	123
With a BBB- rating	14	24
Not rated	29	23
Total against foreign banks	**1,618**	**1,738**
Total against Israeli banks	**546**	**621**
Total Balance-sheet balances of assets deriving from derivative instruments	**2,164**	**2,359**

(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 December 31	As of December 31
	2016	2015
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	2	10
With an AA+ rating	1	1
With an AA rating	11	5
With an AA- rating	17	21
With an A+ rating	20	27
With an A rating	1	51
With an A- rating	3	1
Total against foreign banks	**55**	**116**
Total against Israeli banks	**187**	**90**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**242**	**206**

APPENDIX NO. 5 - ADDITIONAL DETAILS (CONTINUED)

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Details of the column "Other" in Note 28 B to the financial statements according to the overall credit to the public risk per economic sectors

	As of December 31, 2016	As of December 31, 2015
	in NIS million	
Agriculture		-
Industry:		
Machines, electrical and electronic equipment	51	68
Mining, chemical industry and oil products	51	14
Other	19	27
Total industry	121	109
Construction and real estate:		
Acquisition of real estate for construction	20	15
Real estate holdings	52	63
Other	21	12
Total Construction and real estate	93	90
Electricity and water	231	90
Commerce	99	22
Hotels, hotel services and food	2	-
Transportation and storage	25	9
Communications and computer services	27	75
Financial services:		
Financial institution (excluding banks)	584	292
Private customers active on the capital market	271	304
Financial holding institutions	54	53
Insurance and provident fund services	-	-
Total financial services	909	649
Business and other services	9	5
Public and community services	7	11
Private individuals - housing loans	-	-
Private individuals - other	6	21
Total	**1,529**	**1,081**
.Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received	(341)	(260)
Total credit risk in respect of derivative instruments	**1,188**	**821**

APPENDIX NO. 5 - ADDITIONAL DETAILS (CONTINUED)

3. CREDIT LEVELS IN EXCESS OF NIS 800 MILLION - ADDITIONAL DETAILS

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

General details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[(1)] (Consolidated)

	As at December 31	
	2016	2015
	in NIS thousands	
Field of activity:		
Financial services[(2)]	6,164,335	5,672,193
Electricity and water	2,375,541	2,518,739
Financial services	2,128,369	897,334
Real estate	1,418,543	1,256,612
Financial services[(2)]	1,043,510	1,325,150
Trade in vehicles	1,015,143	648,173
Financial services[(2)]	909,281	1,185,841
Communication and Computer Services	820,982	813,110
Industry	771,695	902,500

Footnotes:
(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.
(2) Including mortgage backed securities issued by GNMA, FNMA and FHLMC.

4. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 12 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

	December 31, 2015		December 31, 2016	
	Book value	Fair value[(1)]	Book value	Fair value[(1)]
	In NIS millions			
Of the Israeli Government	22,835	23,086	21,358	21,673
U.S. government	664	664	1,515	1,515
Other governments	390	390	252	252
Total	**23,889**	**24,140**	**23,125**	**23,440**

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. 6 - 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: a. Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). b. 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.

APPENDIX NO. 6 – GLOSSARY (CONTINUED)

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.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

APPENDIX NO. 6 – GLOSSARY (CONTINUED)

Forward looking information

Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968.

The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans.

Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain.

The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets.

The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.

APPENDIX NO. 6 – GLOSSARY (CONTINUED)

Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: a. 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. b. 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.

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Subsidiaries In Israel

BANKING

Mercantile Discount Bank

CAPITAL MARKET AND INVESTMENTS

Tafnit Discount Asset Management
Discount Capital (Formerly Israel Discount Capital Markets & Investments)
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