LEUMI

REPORT ON RISKS

30 September 2016

The Report on Risks and the description of the characteristics of regulatory capital instruments issued are included on the Bank's website: www. leumi.co.il > About > Financial Information and Meetings > Additional Regulatory Disclosures

This is a translation from the Hebrew and has been prepared for convenience purposes only. In the event of any discrepancies, the Hebrew will prevail.

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Report on Risks

The Report on Risks as at 30 September 2016 has been prepared in accordance with the directives of the Supervisor of Banks regarding the detailed disclosure requirements set forth in the Third Pillar of Basel and additional information on risks (hereinafter: "Report on Risks"). Additionally, the report has been prepared in accordance with the directives of the Banking Supervision Department regarding a banking corporation's quarterly report and does not include all the information required in the complete annual reports. It should be read in conjunction with the Group Report on Risks as at the day and the year ended 31 December 2015 (hereinafter: "Annual Report on Risks").

This report includes information related to the consolidated financial statements of Bank Leumi Le-Israel B.M.

The report is intended to allow the readers of the Bank's reports to evaluate significant information, including information on implementation of the Basel Committee's work program, capital, risk exposure, and risk assessment procedures.

David Brodet

Chairman of the Board of Directors

Rakefet Russak-Aminoach

President and Chief Executive Officer

Hilla Eran-Zick

Chief Risk Officer

15 November 2016

Purpose of the disclosure

This publication of a detailed Report on Risks serves as supplementary information to the financial statements of Bank Leumi Le-Israel B.M. The report is intended to enable the readers of the Bank's reports to evaluate significant information which is included therein regarding the implementation of the Basel Committee's framework, capital, risk exposure, and the processes of risk assessment.

The information included within this report includes:

- Disclosure requirements published by the Basel Committee (Third Pillar requirements).
- Disclosure requirements on risks, based on other sources, including the disclosure requirements published by the Financial Stability Board (FSB) via the Enhanced Disclosure Task Force (EDTF).
- The disclosure requirements by virtue of the additional requirements pursuant to the Reporting Regulations of the Bank of Israel and its directives.

In order to denote the source of the various disclosures, this report includes an index of the various disclosure tables, noting the source of the disclosure as "EDTF" and as "Third Pillar", respectively.

Principle of disclosure

As of the 2015 financial statements, the Bank has been implementing the reporting and disclosure requirements included in the Banking Supervision Department's circular regarding "updating the structure of the report to the public of banking corporations and of credit card companies", which changed the format of the financial statements of banking corporations to the public and established additional disclosure requirements in regards to exposure to risks and the methods through which they are managed.

The purpose of the changes is to improve the quality of reports to the public by making the information within the report to the public more useful and accessible to the reader of the report, increase the uniformity in the banking system of the reports' presentation to the public and devise a format for the annual report to the public, which shall be based on the presentation practices of leading banks in Europe and in the United States. One of the key changes is the publication of the Report on Risks on the website, to include detailed quantitative and qualitative information on the risk review, the exposure, and the way they are managed.

The report for 30 September 2016 is a summary report on risks, which is meant to reflect the changes that have occurred in the Bank's risk exposure and the way they are managed, compared with the report for 2015, all in accordance with the disclosure and reporting requirements set forth in the Bank of Israel directives regarding a banking corporation's quarterly reports.

In light of this, the report includes, *inter alia,* the following disclosure requirements, as far as is relevant:

- Quantitative disclosures of the capital requirements and the risk assets in respect of the credit, market and operational exposures.
- Disclosure on exposures to the other risks to which the Bank is exposed by virtue of the nature of its business activity, such as: legal risk, compliance risk, and regulatory risk.
- Qualitative information on significant changes that have occurred in the Bank's disclosure of these and other risks, and the way in which they are managed.
- Remuneration practices of key personnel in the Bank, office-holders and senior management.
- Disclosures by virtue of the recommendations of the EDTF and other sources, as adopted by the Supervisor of Banks.

The new disclosure requirements included in the Bank of Israel's directives were gradually implemented, and the report was prepared in accordance with the disclosure requirements provided in the Supervisor's directives as follows:

- With regard to each quantitative figure included within the annual report on risks for the first time, as a result of the new disclosure requirements – comparative data for the period and day of the corresponding interim period in the past year, were not presented.
- Regarding quantitative figures which were included in previous disclosures as part of the Third Pillar disclosure requirements framework, comparative figures for corresponding periods throughout the previous reporting year have been presented, as required in the directives.
- The information is partially based on the financial information presented the Bank's financial statements, which serve as a basis for calculating regulatory ratios with the required adjustments, and partly on internal models and evaluations. In light of this, part of the information is an unaudited estimate and /or represents forward looking information.
- Additional relevant information regarding exposure to certain risks and additional aspects whose disclosure is required in the Bank Supervision Department's public reporting directives, may be found in the chapter "Review of Risks" in the report of the Board of Directors and the Management.

Forward-looking information in the Report on Risks

In addition to data relating to the past, the Report on Risks also includes information and estimates that relate to the future, which are defined within the Securities Law, 1969, (hereinafter: "the Law") as "forward-looking information". Forward-looking information relates to future events or matters, the realization of which is uncertain and is not exclusively within the Bank's control.

Forward-looking information is generally drafted with words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's programs", "the Bank's forecast", "expected", "strategy", "goals", "likely to affect", "scenarios", "stress scenarios", "risk evaluation", "correlation", "segmentation" and additional phrases testifying to the fact that the matter in question is a forecast and not a past facts.

Forward-looking information which is included in the Report on Risks relies, *inter alia*, on forecasts regarding various subjects related to economic developments in Israel and abroad, and especially to the currency markets and the capital markets, legislation, directives by regulatory entities, the behavior of competitors, technological developments and personnel issues.

As a result of the inability to foresee, with certainty, that these forecasts will be realized, and of the fact that in reality events may turn out differently from those forecasted, readers of the Report should regard to information defined as "forward-looking" cautiously, since relying on such information involves risks and uncertainty and the future financial and business results of the Leumi Group are likely to be significantly different.

The Bank does not undertake to publish updates of the forward-looking information included in these reports. This does not detract from the Bank's lawful reporting obligations.

Summary of Disclosure Tables

The table summarizing the various disclosure requirements is as follows:

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Scope of Application (Third Pillar)

The scope of application relates to the application method of the framework as determined by the Basel Committee for evaluation and capital adequacy as well as additional requirements it determined regarding the leverage ratio and the liquidity coverage ratio in Leumi Group. The scope of application of these directives is at a consolidated level as well as at the level of certain banking subsidiaries, as detailed below:

- The capital requirements for the consolidated Group are calculated within the framework of the Proper Conduct of Banking Business Directives, which combine the directives of the Basel Committee with certain adjustments, based on its consolidated financial reports and also at the level of banking subsidiaries. The capital requirements calculation is based on its consolidated financial reports, which are prepared according to the accepted accounting principles (Israeli GAAP) and in accordance with the Banking Supervision Department's directives and instructions. According to the accepted accounting principles, banking subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial reports, while for the purpose of supervision of capital, various principles of consolidation are applied, such as special treatment for reputational assets or other intangible assets as well as treatment of non-controlling interests. The capital requirements of banking subsidiaries abroad are calculated in accordance with the regulatory directives, which were determined by the regulatory authority in the country in which they operate.
- In some of the subsidiaries abroad, the requirements relating to the leverage ratio and/or liquidity requirements have yet to be implemented. In light of this, the Basel Committee's framework is applied at the consolidated level alone.

Description of Leumi Group's business and its general development

Bank Leumi and its subsidiary companies constitute one of the largest banking groups in Israel.

The Bank is defined as a banking corporation under the Banking (Licensing) Law, 1981, and holds a banking license under that law. As a "Bank" and a "Banking Corporation", the Bank's activities are governed and delineated by a system of laws, orders and regulations, including, *inter alia,* the Banking Ordinance, the Bank of Israel Law, the Banking (Licensing) Law and the Banking (Service to Customer) Law, as well as by directives, rules, instructions and position papers of the Supervisor of Banks.

The Leumi Group is involved in a variety of financial banking and non-banking activities, in Israel and overseas. The Group's activities are carried out through the Bank, subsidiaries and associated companies, as well as through branches and representatives overseas.

The Group's policy, in Israel and abroad, is to provide its customers with comprehensive banking and financial solutions and a high level of professional service, to enable them to make use of varied distribution channels and offer them a wide variety of products, tailored to their needs.

The Bank's business activity is organized in four main business lines, focused on different market segments, where every business line specializes in providing banking and financial services to a certain customer segment. Specifically, the business activity focuses on providing financial services and various investment solutions to customers associated with the 4 business lines detailed below:

- **Retail Banking** – provides banking services to private and small business customers, and also includes the mortgage section and private banking section (works with private customers of good financial standing). The activity is conducted through designated centers and branches in Israel and the Bank's overseas offices in the USA and Great Britain.

- **Commercial Banking** – deals with Middle Market companies and interested parties in these companies, including senior office-holders.

- **Corporate Banking** – provides financing and support to large companies and multinational companies, including entrepreneurial and contracting companies involved in large real estate and infrastructure projects. The Business center and the Construction and Real estate center manage, inter-alia, customers whose business activity is complex, their business in international and/or their activity managed in a number of the Bank's overseas offices. Credit is provided through the overseas offices, inter alia, to local entrepreneurs operating in the fields of real estate, hotels and nursing homes.

- **Capital Market Banking and Financial Management** – manages the Bank's nostro, manages all of the Bank's trading rooms for the purpose of marketing activity, foreign currency trading and brokerage, interest, derivatives and securities, financial management including development of investment and financial products, supplying sophisticated trading platforms to customers, determining collateral requirements from customers who are active within the sectors, the Bank's Assets and Liabilities Management – ALM, and managing and monitoring investment activity in financial assets. Furthermore, the Division manages the contact with financial institutions abroad and is responsible for providing service to customers in Israel who operate in the capital and financial markets, including institutions. Non-banking investments are mainly managed by Leumi Partners.

Risk Management at Leumi and Key Metrics

Risk management is an essential condition for fulfilling ongoing goals and the Group's long-term goals. The Group is engaged in a wide range of activities involving the taking of financial risks, such as credit risks, market and liquidity risks, and other risks which are not financial risks, such as operational risks, including technological and cyber risks, legal risks, regulatory risks, reputational risks and compliance risks. The main objectives of risk management in Leumi is retaining Group stability and supporting the attainment of the business goals. These goals are achieved while meeting the predefined risk appetite and retaining proper management, control and reporting mechanisms.

In light of this, the Bank continuously upgrades the risk management infrastructure and the risk profile analysis, which allows for well-informed decisions making.

Table 1 - Summary of regulatory ratios and key financial data

	30 September		31 December
	2016	2015	2015
	NIS millions		
Tier 1 shareholders' equity	**32,255** (b)	28,708	29,001
Overall capital	**44,660** (b)	42,062	41,594
Credit risk	**271,243**	281,275	277,034
Market risk	**5,212**	7,045	5,167
Operational risk	**20,518**	20,227	20,432
Total weighted balances of risk assets	**296,973** (b)	308,547	302,633
	Percentages		
Ratio of Tier 1 shareholders' equity to risk components(a)	**10.86%**	9.30%	9.58%
Total overall capital to risk components(a)	**15.04%**	13.63%	13.74%
Liquidity coverage ratio(c)	**130%**	104%	105%
Leverage ratio(c)	**6.81%**	6.34%	6.27%
Rate of balance of allowance for credit losses in respect of credit to the public out of balance of impaired credit to the public	**98.5%**	100.2%	105.9%
Ratio of problem debts to the whole credit portfolio	**3.0%**	3.5%	3.1%
Rate of balance of allowance for credit losses out of credit to the public, net	**1.5%**	1.6%	1.6%
Return on equity	**10.7%**	11.9%	10.3%

(a) The required minimum ratio of Tier 1 shareholders' equity and required minimum of total capital from 1 January 2015 to 31 December 2016 is 9% and 12.5%, respectively, and as of January 2017 is 10% and 13.5%, respectively. To these ratios, as of1 January 2015, a capital requirement of 1% of the housing loan balance is to be added. This requirement is gradually being implemented in equal quarterly rates beginning 1 April 2015 and until 1 January 2017.
Accordingly, the minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio to be required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.27% and 13.77%, respectively.

(b) These figures include adjustments in respect of the efficiency plan set in accordance with the letter from the Supervisor of Banks dated 12 January 2016, entitled "Operational Streamlining of the Banking System in Israel" (hereinafter: adjustments for the efficiency plan), which gradually decrease until 30 June 2021.

(c) Pursuant to the Bank of Israel directives, the leveraging ratio and the liquidity coverage ratio were calculated from the second quarter of 2015. The liquidity coverage ratio is presented in terms of simple averages and daily observations during the reported quarter. The minimum liquidity coverage ratio required by the Supervisor of Banks will increase gradually from 60% on 1 April 2015, to 80% on 1 January 2016 and up to 100% on 1 January 2017.
The Bank is required to provide a minimum leverage ratio of 6%, as required by the Supervisor of Banks as of 1 January 2018.

Capital (Third Pillar)

Capital Structure and Capital Adequacy (Third Pillar)

Regulatory capital structure

Since 1 January 2014, the Bank has been implementing the Basel III directives for calculating capital adequacy as adopted in the Proper Conduct of Banking Business Directive No. 201-211 of the Banking Supervision Department. The implementation is gradual, in accordance with the transitional provisions included within the Banking Supervision Department's Proper Conduct of Banking Business Directive No. 299.

The regulatory capital is the basis for calculating the capital adequacy ratio, which is calculated as the ratio between the sum of the eligible regulatory capital and risk-weighted assets. The regulatory capital measurement is based on the capital's allocation to Tier 1 equity and Tier 2 capital. The sum of these Tiers is called the "capital basis for capital adequacy purposes" or "regulatory capital" or "overall capital", and the calculation of the various capital adequacies is performed subject to the regulatory adjustments and the deductions from the regulatory capital.
In accordance with the transitional provisions, the regulatory adjustment and deduction from the capital as well as the minority rights which are ineligible to be included in the regulatory capital are gradually deducted from the capital at a rate of 20%, as of 1 January 2014, and increase with every subsequent year at a rate of 20% until its completion on 1 January 2018. In view of the abovementioned, as at 2016, the regulatory capital deduction rate is 60%.

Tier 1 shareholders' equity includes the capital components attributed to the shareholders of the banking corporation with the addition of some of the non-controlling interests in the equity of consolidated subsidiaries (minority rights) and after deduction of goodwill, other intangible assets and regulatory adjustments and other deductions, as set out in Proper Conduct of Banking Business Directive No. 202 "Measurement and Capital Adequacy – Regulatory Capital," and subject to the Transitional Provisions in Proper Conduct of Banking Business Directive No. 202 "Measurement and Capital Adequacy – Regulatory Capital- Transitional Provisions."

Additional Tier 1 capital which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Directive No. 202. There are no capital instruments in this Tier in the Leumi Group. If additional Tier 1 capital instruments are issued in the future, they will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Directive No. 202.

Tier 2 capital includes mainly capital instruments and the collective allowance balance for credit losses before the relevant tax effect tax up to a cap of 1.25% of total credit risk assets.

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, transitional provisions were set and the cap for recognition which was computed as at 1 January 2014, according to 80% of the balance of instruments as of 31 December 2013, and at the beginning of each successive year. this cap is reduced by 10%. Capital instruments that were part of Tier 2 at 31 December 2013 include compound capital instruments which up until now classified as Upper Tier 2 and subordinated notes that were classified as Lower Tier 2.

It should be noted that the amount actually recognized as Tier 2 capital is the lowest of the amortized amount of the instruments themselves and their recognition cap according to the transitional provisions. As of 2014, capital instruments to be issued will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Directive No. 202 for the purpose of their inclusion in the capital. The main criteria that the instrument must include: (1) a mechanism for absorbing the losses of the reserve by conversion to ordinary shares or the amortization of the instrument when the Tier 1 shareholders' equity ratio of the banking corporation falls below 5%; (2) an item that provides that upon the occurrence of the defining event for non-compliance (as defined in Appendix E to Proper Conduct of Banking Business Directive No. 202), the instrument will be converted immediately to ordinary shares or will be extinguished.

Pursuant to the Shelf Proposal Report dated 20 January 2016, on 21 January 2016 the Bank issued an amount of NIS 926 million of Series 400 subordinated notes, which are eligible for inclusion in Tier 2.

Restrictions on the capital structure

Proper Conduct of Banking Business Directive No. 202 establishes restrictions on the capital structure:

- Tier 2 capital may not exceed 100% of Tier 1 capital, after this capital's required deductions.
- Capital instruments which are eligible for inclusion in Tier 2 capital shall not exceed 50% of Tier 1 capital, after this capital's required deductions. This limit does not include equity instruments that were included prior to this Directive in Upper Tier 2 capital, in the amount of the balance of those instruments as at 31 December 2013 and in accordance with the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 (Regulatory Capital - Transitional Provisions).

Table 2 - Capital adequacy ratio to risk components (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millions		
Data			
Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity, after regulatory adjustments and deductions	**32,255**	28,708	29,001
Tier 2 capital, after deductions	**12,405**	13,354	12,593
Total capital	**44,660**(b)	42,062	41,594
Weighted balances of risk assets			
Credit risk	**271,243**	281,275	277,034
Market risk	**5,212**	7,045	5,167
Operational risk	**20,518**	20,227	20,432
Total weighted balances of risk assets	**296,973**(b)	308,547	302,633
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components	**10.86%**	9.30%	9.58%
Ratio of total capital to risk components	**15.04%**	13.63%	13.74%
Minimum Tier 1 shareholders' equity required by the Supervisor of Banks[(a)]	**9.20%**	9.06%	9.10%
Minimum overall capital ratio required by the Supervisor of Banks[(a)]	**12.70%**	12.56%	12.60%

(a) The required minimum ratio of Tier 1 shareholders' equity and required minimum of total capital as of 1 January 2015 to 31 December 2016 is 9% and 12.5%, respectively, and as of January 2017 is 10% and 13.5%, respectively. To these ratios, as of 1 January 2015, a capital requirement of 1% of the housing loan balance is to be added. This requirement is gradually being implemented in equal quarterly rates beginning 1 April 2015 and until 1 January 2017.
Accordingly, the minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio to be required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.27% and 13.77%, respectively.

(b) These figures include adjustments in respect of the efficiency plan set in accordance with the letter from the Supervisor of Banks dated 12 January 2016, entitled "Operational of the Banking System in Israel" (hereinafter: adjustments for the efficiency plan), which gradually decrease until 30 June 2021.

Effect of the transitional provisions on the Tier 1 shareholders' equity ratio

	30 September		31 December
	2016	2015	2015
	Percentages		
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components before implementation of the effect of the transitional directives and before the effect of adjustments in respect of the efficency plan	**10.35%**	8.74%	8.93%
Effect of the transitional directives	**0.37%**	0.56%	0.65%
Ratio of Tier 1 shareholders' equity to risk components, before the effect of adjustments in respect of the efficency plan	**10.73%**	9.30%	9.58%
The effect of adjustments in respect of the efficiency plan	**0.13%**	0.00%	0.00%
Tier 1 shareholders' equity to risk components	**10.86%**	9.30%	9.58%

Table 3 - Components of capital for the purpose of calculating the capital ratio (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millions		
Tier 1 shareholders' equity			
Share capital	**7,109**	7,059	7,059
Premium	**1,722**	1,129	1,129
Retained earnings	**24,431**	21,553	21,984
Unrealized profits (losses) from fair value adjustments of securities available for sale	**223**	58	69
Adjustments from translation of financial statements of companies included on equity basis	**(54)**	18	7
Capital reserves in respect of share-based payment transactions and loans to employees for the purchase of the bank's shares	**-**	13	13
Other capital reserves	**(866)**	(508)	(600)
Non-controlling interests	**243**	262	262
Amounts reduced from Tier 1 shareholders' equity, including goodwill and other intangible assets, deferred taxes, unrealized profits (losses) resulting from changes in the fair value of liabilities deriving from changes in own credit risk of the Bank	**(553)**	(876)	(922)
Amounts reducted from Tier shareholder's equity, including goodwill, investments and other intengible assets	**-**	-	-
Total Tier 1 shareholders' equity after deductions	**32,255**	28,708	29,001
Tier 2 capital			
Capital instruments eligible for inclusion under the transitional provisions in Directive 299	**9,194**	10,181	9,438
Non-controlling interests in subsidiaries under the transitional provisions in Directive 299	**21**	13	12
Collective allowance for credit losses before the relevant tax effect	**3,190**	3,160	3,143
Total Tier 2 capital	**12,405**	13,354	12,593
Total capital base for capital adequacy purposes	**44,660**	42,062	41,594

Table 4 – Composition of regulatory capital with references to the regulatory balance sheet (Third Pillar)

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Tier 1 shareholders' equity: instruments and retained earnings							
Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Tier 1 shareholders' equity	**8,831**	-	8,188	-	8,188	-	1
Retained earnings, including dividend proposed or declared after the balance sheet date	**24,332**	-	21,553	-	21,984	-	2
Accumulated other comprehensive income and retained earnings that were disclosed	**(1,091)**	(844)	(419)	-	(511)	(894)	3
Tier 1 shareholders' equity instruments issued by the banking corporation for inclusion in regulatory capital in the transitional period	**-**	-	-	-	-	-	-
Existing capital injections from the public sector that will be recognized up to 1 January 2018	**-**	-	-	-	-	-	-
Ordinary shares issued by subsidiaries of the banking corporation (minority interests) that were consolidated and were held by a third party	**243**	78	262	109	262	117	4
Tier 1 shareholders' equity before regulatory adjustments and deductions	**32,315**	-	29,584	-	29,923	-	-
Tier 1 shareholders' equity: regulatory adjustments and deductions							
Stability adjustments to appraisal	**-**	-	-	-	-	-	-
Goodwill	**264**	-	274	-	273	-	6
Other intangible assets excluding mortgage servicing rights, less deferred taxes payable	**-**	-	-	-	-	-	7
Deferred taxes receivable whose use is based on future profitability of the banking corporation	**1**	1	6	10	2	4	8
Total accumulated other comprehensive income in respect of cash flow hedges of items not shown in the balance sheet at fair value	**-**	-	-	-	-	-	-
Shortfall between provision and expected losses	**-**	-	-	-	-	-	-
Increase in shareholders' equity deriving from securitization transactions	**-**	-	-	-	-	-	-
Unrealized profits and losses resulting from changes in fair value of liabilities deriving from changes in the own credit risk of the banking corporation. In addition, with reference to liabilities in respect of derivative instruments, all derivative value adjustments (DVA) deriving from the own credit risk of the Bank are to be deducted	**12**	8	-	-	6	10	9
Excess of provision over reserve, less deferred taxes payable that will be removed if the asset becomes impaired of will be deleted pursuant to the Public Reporting Directives	-	-	-	-	-	-	-

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Own investment in ordinary shares, held directly or indirectly (including liability to purchase shares subject to contractual agreements).	**-**	**-**	-	-	-	-	-
Mutual cross holdings in ordinary shares of financial corporations	**-**	**-**	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation (in an amount exceeding 10% of Tier 1 shareholders' equity)	**-**	**-**	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	-	-	-
Mortgage servicing rights whose total exceeds 10% of the Tier 1 shareholders' equity	**-**	**-**	-	-	-	-	-
Deferred taxes receivable created as a result of timing differences, whose total exceeds 10% of the Tier 1 shareholders' equity	**1,294**	**862**	596	894	640	960	10
Total mortgage servicing rights, deferred taxes receivable created a s a result of timing differences and investments exceeding 10% of the ordinary share capital issued by financial corporations, which exceed 15% of the Tier 1 shareholders' equity of the banking corporation	**-**	**-**	-	-	-	-	-
Of which:	**-**	**-**	-	-	-	-	-
In respect of investments exceeding 10% of the ordinary share capital issued by financial corporations	**-**	**-**	-	-	-	-	-
In respect of mortgage servicing rights	**-**	**-**	-	-	-	-	-
Of which: deferred taxes receivable created as a result of timing differences	**-**	**-**	-	-	-	-	-
Additional regulatory adjustments and deductions determined by the Supervisor of Banks	**-**	**-**	-	-	-	-	-
Of which: in respect of investments in capital of financial corporations	**-**	**-**	-	-	-	-	-
Of which: in respect of mortgage servicing rights	**-**	**-**	-	-	-	-	-
Of which: in respect of calculating capital base, based on eight-quarter average discount rate of liability.	**(271)**	**-**	-	-	-	-	**10**
Of which: additional regulatory adjustments to Tier 1 shareholders' equity	**(392)**	**-**	-	-	-	-	-

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Regulatory adjustments in Tier 1 shareholders' equity that are subject to treatment required before adoption of Directive 202 pursuant to Basel III	**(848)**	**(565)**	-	-	-	-	-
Deductions applying to Tier 1 shareholders' equity since there is insufficient additional Tier 1 shareholders' equity and Tier 2 capital to cover the deductions	**-**	**-**	-	-	-	-	-
Total of all regulatory adjustments and deductions to Tier 1 shareholders' equity	**60**	**-**	876	-	922	-	-
Tier 1 shareholders' equity	**32,255**	**-**	28,708	-	29,001	-	-
Additional Tier 1 capital : instruments							
Additional Tier 1 share capital instruments issued by the banking corporation and premium on these instruments	**-**	**-**	-	-	-	-	-
Of which: classified as share capital pursuant to the Public Reporting Directives	**-**	**-**	-	-	-	-	-
Of which: classified as liability pursuant to the Public Reporting Directives	**-**	**-**	-	-	-	-	-
Additional Tier 1 capital : Instruments issued by the corporation that are eligible for inclusion in regulatory capital in the transitional period	**-**	**-**	-	-	-	-	-
Additional Tier 1 capital instruments issued by subsidiaries of the banking corporation and held by third party investors	**-**	**-**	-	-	-	-	-
Of which: additional Tier 1 capital instruments issued by subsidiaries of the banking corporation and held by third party investors, that are deducted gradually from additional Tier 1 capital	**-**	**-**	-	-	-	-	-
Additional Tier 1 capital before deductions	**-**	**-**	-	-	-	-	-
Additional Tier 1 capital: deductions	**-**	-	-	-	-	**-**	-
Own investment in capital instruments included in Tier 1 shareholders' equity, held directly or indirectly (including liability to purchase instruments subject to contractual agreements).	**-**	-	-	-	-	-	-
Mutual cross holdings in ordinary shares of financial corporations included in additional Tier 1 capital	**-**	-	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	**-**	-	-	-	-	-	-

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	-	-	-
Additional deductions determined by the Supervisor of Banks	**-**	**-**	-	-	-	-	-
Of which: in respect of investments in capital of financial corporations	**-**	**-**	-	-	-	-	-
Of which: additional deductions in Tier 1 shareholders' equity	**-**	**-**	-	-	-	-	-
Deductions in additional Tier 1 capital that are subject to treatment required before adoption of Directive 202 pursuant to Basel III	**-**	**-**	-	-	-	-	-
Deductions applying to additional Tier 1 capital since there is insufficient Tier 2 capital to cover the deductions	**-**	**-**	-	-	-	-	-
Total of all deductions in additional Tier 1 capital	**-**	**-**	-	-	-	-	-
Additional Tier 1 capital	**-**	**-**	-	-	-	-	-
Tier 1 shareholders' equity	**32,255**	**-**	**28,708**	**-**	**29,001**	**-**	**-**
Tier 2 capital: Instruments and allowances							
Instruments issued by the banking corporation (that are not included in Tier 1 shareholders' equity) and premium on these instruments	**926**	**-**	-	-	-	-	11(a)
Tier 2 capital instruments issued by the corporation that are eligible to be included in the regulatory capital in the transitional period	**8,268**	**-**	10,181	-	9,438	-	11
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third party investors	**21**	**-**	13	-	12	-	5
Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third party investors, that are d4ducted gradually from Tier 2 capital	**21**	**-**	13	-	12	-	-
Collective allowances for credit losses by the relevant tax effect	**3,190**	**-**	3,160	-	3,143	-	12
Tier 2 capital before deductions	**12,405**	**-**	13,354	-	12,593	-	-
Tier 2 capital: deductions							
Own investment in Tier 2 capital instruments, held directly or indirectly (including liability to purchase instruments subject to contractual agreements).	**-**	**-**	-	-	-	-	-
Mutual cross holdings in Tier 2 capital of financial corporations	**-**	**-**	-	-	-	-	-

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the reports to the public of the banking corporation, where the holding of the banking corporation exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	-	-	-
Additional deductions determined by the Supervisor of Banks	**-**	**-**	-	-	-	-	-
Of which: in respect of investments in capital of financial corporations	**-**	**-**	-	-	-	-	-
Of which additional deductions in Tier 2 capital	**-**	**-**	-	-	-	-	-
Regulatory adjustments in Tier 1 shareholders' equity subject to treatment required before adoption of Directive 202 pursuant to Basel III							
Total regulatory adjustments to Tier 2 capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Tier 2 capital	**12,405**	**-**	**13,354**	**-**	**12,593**	**-**	**-**
Total capital	**44,660**	**-**	**42,062**	**-**	**41,594**	**-**	**-**
Total risk assets weighted in accordance with the treatment required before adoption of Directive 202 pursuant to Basel III	**298**	**-**	904	-	964	-	-
Of which: other deferred tax assets	**298**	**-**	904	-	964	-	13
Total weighted risk assets	**296,973**	**-**	308,547	-	302,633	-	-
Capital ratios and capital buffers							
Tier 1 shareholders' equity (as percentage of weighted risk assets)	**10.86%**	**-**	9.30%	0.00%	9.58%	**-**	**-**
Tier 1 capital (as percentage of weighted risk assets)	**10.86%**	**-**	9.30%	0.00%	9.58%	**-**	**-**
Overall capital (as percentage of weighted risk assets)	**15.04%**	**-**	13.63%	0.00%	13.74%	**-**	**-**
Minimum Tier 1 shareholders' equity determined by the Supervisor of Banks	**9.20%**	**-**	9.06%	0.00%	9.10%	**-**	**-**
Minimum Tier 1 capital determined by the Supervisor of Banks	**-**	**-**	-	0.00%	-	**-**	**-**
Minimum overall capital determined by the Supervisor of Banks	**12.70%**	**-**	12.56%	0.00%	12.60%	**-**	**-**

	30 September 2016		30 September 2015		31 December 2015		
	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Regulatory capital	Amounts not deducted from the capital that are subject to the treatment required before adoption of Directive 202 pursuant to Basel III	Reference to the regulatory balance sheet
Amounts below the deduction threshold (before risk weighting)							
Investments in capital of financial corporations (excluding banking corporations and their subsidiaries) not exceeding 10% of the ordinary share capital issued by the financial corporation and that are below the deduction threshold	**442**	**-**	45	-	663	-	14
Investments in capital of financial corporations (excluding banking corporations and their subsidiaries) exceeding 10% of the ordinary share capital issued by the financial corporation and that are below the deduction threshold	**244**	**-**	183	-	183	-	15
Mortgage servicing rights	**-**	**-**	-	-	-	-	-
Deferred taxes receivable created as a result of timing differences that are below the deduction threshold	**3,253**	**-**	2,930	-	2,964	-	16
Ceiling for inclusion of allowances in Tier 2							
Allowance eligible for inclusion in Tier 2 with reference to exposures under the Standardized Approach, before implementation of the ceiling	**3,190**	**-**	3,160	-	3,143	-	-
Ceiling for inclusion in Tier 2 under the Standardized Approach	**3,391**	**-**	3,516	-	3,463	-	-
Allowance eligible for inclusion in Tier 2 with reference to exposures under the Internal Ratings Approach, before implementation of the ceiling	**-**	**-**	-	-	-	-	-
Ceiling for inclusion in Tier 2 under the Internal Ratings Approach	**-**	**-**	-	-	-	-	-
Capital instruments not eligible as regulatory capital subject to the transitional provisions							
Amount of the present ceiling for instruments included in Tier 1 shareholders' equity subject to the transitional provisions	**-**	**-**	-	-	-	-	-
Amount deducted from Tier 1 shareholders' equity due to the ceiling	**-**	**-**	-	-	-	-	-
Amount of the present ceiling for instruments included in additional Tier 1 capital subject to the transitional provisions	**-**	**-**	-	-	-	-	-
Amount deducted from additional Tier 1 due to the ceiling	**-**	**-**	-	-	-	-	-
Amount of the present ceiling for instruments included in Tier 2 capital subject to the transitional provisions	**9,652**	**-**	10,181	-	10,181	-	-
Amount deducted from Tier 2 capital due to the ceiling	**-**	**-**	67	-	-	-	-

Table 5 - regulatory balance sheet composition with references to regulatory capital components (Third Pillar)

	30 September 2016	30 September 2015	31 December 2015	Reference to regulatory capital components
	NIS millions			
Assets				
Cash and deposits in banks	**59,067**	52,562	60,455	-
Securities[1]	**82,493**	67,545	69,475	-
[1]Of which: investments in capital of financial corporations that do not	**-**	-	-	-
exceed 10% of the share capital of the financial corporation	**442**	45	663	14
[1]Of which: Other securities	**82,051**	67,500	68,812	-
Credit to the public	**267,895**	263,822	265,070	-
Allowance for credit losses[1]	**(3,527)**	(3,813)	(3,671)	-
[1]Of which: collective allowance for credit losses included in Tier 2	**(2,856)**	(2,794)	(2,805)	12
[1]Of which: allowance for credit losses not included in regulatory capital	**(671)**	(1,019)	(866)	-
Credit to the public, net	**264,368**	260,009	261,399	-
Credit to governments	**623**	474	453	-
Investments in companies included on equity basis[1]	**897**	948	924	-
[1]Of which: investments in capital of financial corporations that	**-**	-	-	-
exceed 10% of the share capital of the financ	**244**	183	183	15
Goodwill[1]	**246**	256	255	6
Intangible asset[1]	**-**	-	-	7
Buildings and equipment	**3,044**	2,992	3,095	-
Other assets[1]	**8,723**	7,242	7,666	-
[1]Of which: deferred tax assets[2]	**5,362**	4,436	4,570	-
[2]Of which: deferred tax assets except for thos	**1**	6	2	8
[2]Of which: deferred tax liability in respect of	**-**	-	-	7
[2]Of which: deferred taxes attributed to timing differences, whose total exceeds 10% of the Tier 1 shareholders' equity	**276**	596	640	10
[2]Of which: deferred taxes attributed to timing differences, whose total does not exceed 10% of the Tier 1 shareholders' equity	**3,253**	2,930	2,964	16
[2]Of which: other deferred tax assets pursuant to the transitional provisions	**1,831**	904	964	13
[1]Of which: additional other assets	**3,361**	2,806	3,096	-
Intangible assets and goodwill	**17**	18	18	-
[1]Of which: goodwill	**17**	18	18	6
[1]Of which: intangible asset	**-**	-	-	7
Securities borrowed or purchased under resell agreements	**896**	1,420	1,764	-
Assets in respect of derivative instruments	**11,630**	15,314	11,250	-
Total assets	**431,758**	**408,524**	**416,499**	**-**

	30 September 2016	30 September 2015	31 December 2015	Reference to regulatory capital components
	NIS millions			
Liabilities and capital				
Deposits of the public	**336,851**	317,991	328,693	-
Deposits from banks	**3,589**	3,650	3,859	-
Deposit from governments	**661**	644	750	-
Debentures and subordinated notes[1]	**23,765**	22,187	21,308	-
[1]Of which subordinated notes not recognized as regulatory capital	**22,117**	12,006	11,870	-
[1]Of which subordinated notes recognized as regulatory capital[2]	**9,194**	10,181	9,438	-
[2]Of which: eligible as regulatory capital components	**926**	-	-	11 (a)
[2]Of which: ineligible as regulatory capital components and subject to transitional provisions	**8,727**	10,181	9,438	11
Other liabilities	**22,117**	19,873	20,746	-
[1]Of which: collective allowance for credit losses included in Tier 2	**334**	366	338	12
Securities lent and sold under resell agreements	**553**	503	938	-
Liability in respect of derivative instruments[1]	**12,634**	14,766	11,098	-
[1]Of which; in respect of own credit risk	**-**	-	6	9
Total liabilities	**400,170**	379,614	387,392	
Non-controlling interests[1]	**360**	335	340	-
[1]Of which: non-controlling interests that can be attributed to Tier 1 shareholders' equity	**243**	263	262	4
[1]Of which: non-controlling interests that can be attributed to Tier capital	**21**	13	12	5
Capital attributed to shareholders of the banking corporation[1]	**31,228**	28,575	28,767	-
[1]Of which: ordinary share capital	**7,109**	7,059	7,059	1
[1]Premium on ordinary shares	**1,722**	1,129	1,129	1
[1]Of which: retained earnings	**24,332**	21,553	21,984	2
[1]Of which: unrealized profits (losses) from adjustments of securities available for sale to fair value	**223**	58	69	3
[1]Of which: net losses from adjustments from translation of financial statements	**(54)**	18	7	3
[1]Of which: other reserves	**5**	3	9	3
[1]Of which: Profits (losses) from adjustments in respect of employee benefits included in regulatory capital	**(1,265)**	(498)	(596)	3
[1]Of which: Profits (losses) from adjustments in respect of employee benefits not included in regulatory capital	**(844)**	(747)	(894)	-
Total shareholders' equity	**31,588**	28,910	29,107	
Total liabilities and capital	**431,758**	408,524	416,499	

Table 6 - Report on the changes in the composition of regulatory capital (EDTF)

	For the nine months ended 30 September 2016(c)	For the three months ended 30 September 2015(b)	For the year ended 31 December 2015(a)
	NIS millions		
Tier 1 shareholders' equity			
Balance at the beginning of the period	**29,001**	**31,187**	27,723
Issuance not for cash	**50**	**-**	-
Increase in premium	**593**	**-**	-
Net profit for the period	**2,348**	**919**	2,782
Unrealized profits (losses) from adjustment of securities available for sale	**154**	**(217)**	(327)
Capital reserve of loans to employees for the purchase of shares of the Bank	**-**	**-**	42
Capital reserve for share-based payment transactions	**-**	**-**	10
Capital reserve in respect of employee benefits	**(660)**	**249**	(596)
Effect of the efficiency plan	**304**	**-**	-
The transitional effect of changing to the pension liability discouting rate according to the eight-quarter moving average	**191**	**-**	-
Other capital reserve	**(74)**	**(45)**	13
Minority interests	**(19)**	**11**	(40)
Deductions			
Goodwill and intangible assets	**9**	**9**	-
Deferred taxes in respect of future profitability	**1**	**9**	(84)
Effect of the transition between the curves	**80**	**-**	2
Effect of the efficiency plan	**89**	**-**	-
Deferred taxes in respect of timing differences	**194**	**118**	(520)
Accumulated profits/losses resulting from changes in own credit risk on financial liabilities at fair value	**(5)**	**24**	(4)
Net increase in Tier 1 shareholders' equity	**3,254**	**1,068**	1,278
Balance at the end of the period	**32,255**	**32,255**	29,001
Tier 2 capital			
Balance at the beginning of the period	**12,593**	**12,838**	14,684
Amortization of subordinated notes pursuant to the transitional provisions	**(1,169)**	**(458)**	(2,198)
Eligible subordinated notes	**926**	**-**	-
Minority interests	**9**	**2**	8
Expenses in respect of collective allowance	**46**	**24**	99
Net decrease in Tier 2 capital	**(188)**	**(433)**	(2,092)
Balance at the end of the period	**12,405**	**12,405**	12,593
Total overall capital at the end of the year	**44,660**	**44,660**	41,594

(a) A period of one year shows the movement between the opening balance on 31 December 2014 and the closing balance on 31 December 2015.

(b) A period of three months shows the movement between the opening balance on 30 June 2016 and the closing balance on 30 September 2016.

(c) A period of nine months shows the movement between the opening balance on 30 September 2015 and the closing balance on 30 June 2016.

Capital adequacy

The capital adequacy ratios are calculated as the ratio between the capital and the risk-weighted assets. The Tier 1 shareholders' equity ratio is calculated as the ratio between the sum of Tier 1 shareholders' equity and the risk-weighted assets, and the comprehensive capital ratio is calculated as the ratio between the comprehensive capital and the risk-weighted assets.

Capital adequacy targets as determined by the Bank of Israel:

Pursuant to Proper Conduct of Banking Business Directive No. 201, "Measurement and Capital Adequacy – Introduction, Implementation and Calculation of Requirements", all banking corporations are required to comply with a minimum Tier 1 capital ratio of 9% as of 1 January 2015. In addition, a large banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the balance sheet assets in the banking system in Israel, will be required to comply with a minimum Tier 1 capital ratio of 10%, as of 1 January 2017. This additional provision applies to the Bank. Also, all banking corporations in Israel are required to comply with an overall capital ratio of 12.5%, as of 1 January 2015. A large banking corporation will be required to comply with an overall capital ratio of 13.5%, as of 1 January 2017. This additional provision applies to Leumi.

On 28 September 2014, the Supervisor of Banks published a circular for an amendment to Proper Conduct of Banking Business Directive No. 329 - "Limitations on Issuing of Housing Loans". According to the amended directive, the banking corporation will be required to increase the Tier 1 shareholders' equity target by a rate reflecting 1% of the housing loans balance. The date for compliance with the predetermined capital target is 1 January 2017, and banking corporations are to increase the capital target in fixed quarterly percentages as of 1 April 2015 and until 1 January 2017. The effect of the amendments to the regulation on Leumi Group at the final effective date is estimated at 0.27% to the capital adequacy ratio, whereas, pursuant to the directive, this effect is spread over 8 quarters. Compliance with these targets will be achieved gradually.

On 12 January 2016, the Supervisor of Banks published a circular on the subject of "Operational Streamlining of the Banking System in Israel". According to the circular, a banking corporation that meets the predefined terms will receive a relief, according to which, for calculating the capital and leverage ratios, it can deploy the program over a course of five years in a straight line as of mid-2017. On 1 June 2016, the Bank's Board of Directors approved the streamlining program, which is estimated to cost about NIS 550 million. According to this estimate, the capital adequacy target reduction as at 30 June 2016 and 1 January 2017 is 0.11% and 0.13%, respectively.

In light of the above, the minimum required capital target applicable to the Bank as at 30September 2016 is:

Tier 1 shareholders' equity target – 9.20%

Overall capital target – 12.70**%**

Capital adequacy targets as determined by the Bank:

The capital planning in Leumi Group reflects a forward-looking vision of the risk appetite and the capital adequacy required as a consequence. The Group policy, approved by the Board of Directors, is to hold a level of capital adequacy higher than the minimum, as will be periodically specified by the Bank of Israel, and not less than the rate required to cover the risks as estimated in the ICAAP process. Additionally, targets which the Group wishes to meet in the event of a stress scenario have been set.

As part of the regulatory review procedure, the Supervisor has instructed to determine internal capital targets which will suit the Bank's risk profile. Further thereto, the Bank's Board of Directors has approved an increase in the Bank's internal Tier 1 shareholders' equity, such that as of

31 December 2017, it will stand at 10.5%. It was decided that the Bank's Board of Directors will revisit the aforementioned subject no later than the end of 2016. Further to the above, on 15 November 2016, the Board of Director decided that the aforementioned discussion is to be executed prior to the submission date the annual financial reports.

The regulation regarding employee rights which was first implemented in January 2015, is a factor which significantly impacts Leumi's Tier 1 shareholders' equity, particularly due to the fact that the measurement of the liability is in accordance with market interest rates, which are currently at historically low levels, and due to the high fluctuation that is inherent in this measurement.

In this regard, on 12 July 2016, the Bank of Israel issued an approval according to which, beginning with the financial reports for the period which ended on 30 June 2016 and ending with the financial reports as at 30 December 2020 (included), for the purpose of measuring the supervisory capital adequacy, the discount interest rate to be used in order to calculate the pension obligations of the first generation employees will be calculated according to a moving average of the market yields for a period of eight quarters, which ended on the relevant reporting date. Changing the method significantly moderates the volatility, which stems from changes in the discount interest rate. Changing the calculation method increased the supervisory capital, as at 30 June 2016, by about NIS 380 million.

In addition, from the third quarter, the Bank adopted a discounting methodology that adds to the curve based on Israel government bonds a fixed margin of bonds rated internationally as AA. The change in estimate apply as at 30 September 2016 amounted to NIS 296 million of the supervisory capital.

As of September 2016, the Tier 1 capital adequacy ratio of the Bank is 10.86%.
During the first nine months of 2016, a number of significant actions were completed in order to improve the capital adequacy ratio. Among them:

- **Converting employee rights into Bank shares**: On 20 March 2016, the Bank's Board of Directors approved the issuance of shares to employees and office-holders. The aggregate amount of employee and office-holders' rights converted into shares amounts to NIS 636 million. The value of the Bank's shares for purpose of conversion of rights is 13.0 (the closing rate of the Bank's shares as on 6 March, 2016). Accordingly, the Bank's Board of Directors approved the issuance of 48,938,037 shares, constituting some 3.21% of the Bank's issued and paid up capital (after allotment). The shares were allotted to a trustee that will hold the shares in trust on behalf of the employees, pursuant to Section 102 of the Income Tax Ordinance. The increase in capital derived from this conversion of rights, improved the Bank's capital adequacy ratio of Tier 1 shareholders' equity by about 0.24% as at 31 March 2016.
- **Insurance for the guarantees portfolio under the Sales Law**: On 8 March 2016, the Bank entered into an agreement with highly-rated international reinsurers, to purchase insurance for the portfolio of guarantees by virtue of the Sales Law (Apartments) and obligate to take out guarantees as aforementioned. The insurance policy protects the Bank in the event that it will be required to pay due to a forfeiture of the guarantees, all in accordance with the policy conditions. The purchase of the insurance facilitates a reduction in the earmarked capital, covering the credit risk deriving from the issue of the guarantees using the policy as credit risk reduction, in accordance with the Proper Conduct of Banking Business Directive No. 203, and contributing to an improvement of some 0.23% in the Bank's Tier 1 capital adequacy ratio, as at 31 March 2016.
- **Deduction from the capital in respect of deferred tax asset:** On 4 April 2016, an update to the question and answer file from the Banking Supervision Department on the implementation of Proper Conduct of Banking Business Directives was published, regarding the measurement and

capital adequacy. The purpose of the update is to clarify the method of treating the payroll tax component in all matters related to the calculation of the capital requirements and the deduction from capital in respect of deferred tax asset. According to the clarification, when a banking corporation reaches the conclusion that, under the circumstances present at the time of the report, it is virtually certain that the deferred tax asset equals the sum of the payroll tax included in the books of the Bank, it is permissible not to apply the threshold tax deduction included in Section 13 of the directive on this portion of the deferred tax asset. For this purpose, the Bank will be permitted to implement the test of threshold deduction on the net sum of deferred taxes, after deducting payroll tax as stated above. The deferred tax asset, as stated, which is not deducted from the capital, will be weighted as a risk asset at a rate of 250%. The Bank is implementing the directives with effect from the date of their publication and onwards, without adjustment to comparative figures and subject to the transitional provisions stipulated in Proper Conduct of Banking Business Directive No. 299 of the Banking Supervision Department. This amendment contributed a rate of some 0.20% to the Bank's Tier 1 capital adequacy and 0.17% in the overall capital ratio. As at 31 March 2016.

The Bank is preparing to comply with the capital targets and acts to complete the required capital (in excess of the regulatory capital resulting from its current profits less the increase in risk assets and the influence of the transitional directives), *inter alia*, by optimizing the risk assets (optimizing collateral, etc.), investment in nostro assets that require lower capital allocation, selective management of credits by industry sectors and risk, syndication, and reinsurance.

On 28 February 2016, Leumi signed an agreement with Harel Insurance Investments and Financial Services Ltd. for providing joint housing loans secured by, inter-alia, mortgages and pledges of contractual rights regarding land. On 13 June 2016, the preconditions in the agreement were met in full and following the completion of the transaction, according to which Harel, along with the Bank, will take part in providing joint loans in which the ratio between the loan amount and its asset value (the LTV) is up to 60% and not above this rate (as long as no regulatory approval is granted to Harel to participate in the loans at a higher financing rate). Harel's updated expected participation amounts in providing housing loans along with the Bank in 2016 and 2017 is a total sum of NIS 4 billion.

In addition, on 27 September 2016, the Bank signed an agreement with institutional investors from Menora Mivtachim Group ("The sale agreement" and "Menora Mivtachim," respectively), whereby, subject to fulfillment of conditions precedent, the Bank will sell to Menora Mivtachim, effective 31 October 2016 (or another date as agreed between the parties), 80% of the Bank's rights and related obligations in the housing loans portfolio (as set forth in Proper Conduct of Banking Business Directive No. 451) which are secured, *inter alia*, by mortgages on rights in real estate and/or pledges of contractual rights in real estate, as applicable, and which comply with the criteria as set forth in the sale agreement ("the loan portfolio").

The Bank will continue to hold the remaining 20% of the aforementioned loan portfolio, so that the rights and the related obligations to be sold to Menora Mivtachim will be pari passu to those remaining in the Bank. The amount of loans in the loan portfolio is estimated at a total amount of NIS 2 billion, so that the part sold to Menora Mivtachim is estimated at an amount of NIS 1.6 billion. Simultaneously to signing the sale agreement, the Bank signed a management agreement with Menora Mivtachim whereby, after the completion of the transaction, the Bank will manage on behalf of Menora Mivtachim its share of the purchased loan portfolio, against payment to be made to the Bank (the "Management Agreement").

On 27 October 2016, all the conditions precedent stipulated in agreement were met in full. The parties are performing all other actions required to complete the transaction, and upon their completion the transaction will come into effect as of 31 October 2016, according to the provisions set forth in the agreement.

The completion of the transaction is not expected to have a material impact on the financial results of the Bank.

Efficiency Plan

On 12 January 2016, the Supervisor of Banks published a circular regarding "Operational Streamlining of the Banking System in Israel". Pursuant to this circular, a banking corporation which meets the conditions defined will receive relief, according to which regarding calculating capital adequacy and leverage ratios, it can spread the effect of the plan over five years on a straight-line basis from mid-2017. On 1 June 2016, the Board of Directors of the Bank approved the efficiency plan, whose cost is estimated at about NIS 438 million (after tax). Without the said relief, implementing the efficiency plan as at 30 September 2016 would have led to a reduction of about 0.13% in the capital adequacy ratio.

Below is an analysis of the sensitivity to the main factors affecting Leumi Group's capital adequacy:

- Changing the total of risk assets – Leumi's risk assets at the end of September 2016 amounted to approximately NIS 297.0 billion. Each 1% increase in risk assets (about NIS 3 billion) will reduce the Tier 1 shareholders' equity capital adequacy ratio by 0.11%, and the overall capital ratio by 0.15%.
- Accumulated profit or a change in the capital reserve – the Tier 1 shareholders' equity of Leumi at the end of September 2016 amounts to NIS 32.3 billion. Total overall capital amounts to about NIS 44.7 billion. Any accumulation of net profit and/or positive movement in the capital reserve in the amount of NIS 1 billion, will improve the Tier 1 shareholders' equity capital adequacy ratio and the overall capital ratio by 0.34%.
- Obligations regarding employee rights - the actuarial liability for employees discounted according to an eight-quarter moving average of market interest rates affected by the Israeli government bonds curve and the US AA corporate bonds spread. An increase of 0.1% over the interest rate curve for discounting, assuming the curve rises and falls uniformly, and without regard to hedging activities the Bank has adopted so far, means an increase of approximately 0.07% with respect to Tier 1 shareholders' equity ratio and overall capital ratio. Out of this, according to a moving average calculation for eight quarters, an increase of about 0.01% in the Tier 1 shareholders' equity ratio and in the overall capital ratio for the current quarter.

The above capital adequacy ratio policy relates to future transactions of the Bank, and is considered "forward-looking information".

Regulatory changes that may affect capital requirements and planning:

Capital requirements for exposures to key counterparties

On 22 October 2015, the Supervisor of Banks issued a circular entitled "Capital Requirements for Exposures to Key Counterparties" ((henceforth: the "Circular"). The circular amends the provisions of Proper Conduct of Banking Business Directives No. 203 and 204 in order to adapt them to the recommendations of the Basel Committee with regard to capital requirements in respect of the exposures of banks to key counterparties. The circular specifies the new guidelines, which will apply to key counterparty exposures incurred in OTC derivatives transactions, derivatives transactions quoted on the stock exchange and securities financing transactions. The guidelines distinguish between a key counterparty that is not eligible and a key counterparty that is eligible, whereby for the latter reduced capital requirements were set.

In the circular issued by the Banking Supervision Department on 9 June 2016, it was determined that the circular will come into effect as of 1 January 2017, and that until 30 June 2017 the Tel Aviv Stock Exchange can be regarded as an eligible key counterparty, even if it is not yet declared as eligible. Implementing the circular, if the Tel Aviv Stock Exchange will be recognized as eligible, should not have a material effect on the shareholder's equity adequacy Tier 1. Given that the Tel Aviv Stock Exchange in Israel will not be recognized as an eligible key counterparty, the estimated increase in total risk assets for the end of the third quarter of 2016 figures is about NIS 2.8 billion, a decrease of about 0.1% in shareholder's equity adequacy Tier 1.

The above information regarding capital adequacy and its management refers to future operations of the Bank, and is considered "forward-looking information".

Table 7 - Risk components and capital requirements in respect of credit risk, market risk and operational risk (Third Pillar)

	30 September				31 December	
	2016		2015		2015	
	Risk assets and capital requirements in respect of credit risk deriving from exposures of:					
	Risk assets	Capital requirements[(b)]	Risk assets	Capital requirements[(b)]	Risk assets	Capital requirements[(b)]
	NIS millions					
Sovereign debts	**1,176**	**149**	1,037	130	923	116
Debts of public sector entities	**3,009**	**382**	2,572	323	2,734	344
Debts of banking corporations	**3,403**	**432**	3,897	489	3,693	465
Debts of securities	**153**	**19**	153	19	173	22
Debts of corporations	**97,249**	**12,351**	110,528	13,882	106,737	13,449
Debts collateralised by commercial real estate	**50,426**	**6,404**	51,472	6,465	51,497	6,489
Retail exposures to individuals	**35,468**	**4,504**	32,772	4,116	33,421	4,211
Small business loans	**12,203**	**1,550**	11,257	1,414	11,567	1,457
Housing mortgages	**44,867**	**5,698**	45,329	5,693	45,119	5,685
Securitization	**515**	**65**	588	74	578	73
Other assets	**20,813**	**2,643**	19,106	2,400	18,952	2,388
Risk assets and capital requirements in respect of CVA risk	**1,961**	**249**	2,564	322	1,640	207
Total in respect of credit risk[(a)]	**271,243**	**34,446**	281,275	35,327	277,034	34,906
Risk assets and capital requirements in respect of market risk[(a)]	**5,212**	**662**	7,045	885	5,167	651
Risk assets and capital requirements in respect of operational risk[(a)]	**20,518**	**2,606**	20,227	2,541	20,432	2,574
Total risk assets and capital requirements[(a)]	**296,973** (c)	**37,714**	308,547	38,753	302,633	38,131
Total overall capital	**44,660** (c)		42,062		41,594	
Ratio of Tier 1 shareholders' equity to risk components	**10.86%**		9.30%		9.58%	
Ratio of overall capital to risk components	**15.04%**		13.63%		13.74%	
Ratio of minimum Tier 1 shareholders' equity required by the Supervisor of Banks[(b)]	**9.20%**		9.06%		9.10%	
Ratio of minimum overall capital required by the Supervisor of Banks[(b)]	**12.70%**		12.56%		12.60%	

(a) Additional capital buffers calculated in respect of the Second Tier.

(b) The minimum Tier 1 shareholders' equity ratio required and the minimum total equity ratio required from 1 January 2015 until 31 December 2016 are 9% and 12.5%, respectively, and from 1 January 2017 and 10% and 13.5%, respectively. To these ratios, from 1 January 2015, there is added a capital requirement at a rate expressing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually in equal quarterly amounts from 1 April 2015 to 1 January 2017.
Accordingly, the minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.27% and 13.77%, respectively.

(c) These figures include adjustments in respect of the efficiency plan set in accordance with the letter from the Supervisor of Banks dated 12 January 2016 entitled "Operational Streamlining of the Banking System in Israel" (hereinafter: Adjustments for the Efficiency Plan), which decrease gradually until 30 June 2021.

Table 8 - Capital adequacy ratio on consolidated basis and principal subsidiaries according to Basel

	30 September		31 December	30 September		31 December
	2016	2015	2015	**2016**	2015	2015
	Tier 1 shareholders' equity ratio			Overall capital ratio		
	Percentages					
Leumi Consolidated	**10.86%**	9.30%	9.58%	**15.04%**	13.63%	13.74%
Leumi Card	**16.38%**	16.03%	16.89%	**17.31%**	16.98%	17.82%
Bank Leumi USA[(a)]	**12.29%**	11.04%	12.33%	**14.94%**	13.88%	15.13%

(a) Capital requirements are in accordance with local regulation.

Table 9 - Components of risk-weighted assets by business activity (EDTF)

Measuring exposures to the different risks is based on the balances in the Bank's books as prepared in accordance with generally accepted accounting principles applicable to the Bank and in accordance with specific calculation provisions set forth in Directives 203-209. The measurement may vary according to changes in these rules and provisions and other changes, such as changes in the size and composition of the portfolio, changes in portfolio quality and economic data, changes in calculation methods including risk mitigation techniques (CRM). Risk exposures presented below are based on the rules defined for the calculation of regulatory capital required to support these risks. Additionally, the exposures below are presented in accordance with allocation to lines of business activity as reflected in the report on the Bank's operating segments with allocation by risk assets associated with each line of activity.
This information was included for the first time within the context of the financial statements for 2015, in accordance with the requests for disclosure by the EDTF. In view of a change in the definition of regulatory sectors that occurred pursuant to implementation in the Bank's financial statements of the directives that were determined in the circular issued by the Supervisor of Banks on 3 November 2014 on the subject of reporting on activity sectors, the disclosure on 31 December 2015 is restated in order to conform to the nature of the new supervisory presentation.

Risk asset balances by operating segment

	30 September 2016							
	Households	Private banking	Small businesses	Commercial	Corporate	Others	Total	Total
	NIS milions							
Sovereign debts	-	-	-	-	-	**1,176**	-	**1,176**
Debts of public sector entities	-	-	-	-	**2,116**	**893**	-	**3,009**
Debts of banking corporations	-	-	-	-	-	**3,403**	-	**3,403**
Debts of securities companies	-	-	-	-	-	**153**	-	**153**
Debts of corporations	-	-	-	**22,741**	**44,420**	**30,088**	-	**97,249**
Debts collateralised by commercial real estate	-	-	-	**17,074**	**33,351**	-	-	**50,426**
Retail exposures to individuals	**34,346**	**1,122**	-	-	-	-	-	**35,468**
Small business loans	**4,422**	**144**	**2,702**	**1,671**	**3,264**	-	-	**12,203**
Housing mortgages	**43,448**	**1,419**	-	-	-	-	-	**44,867**
Securitization	-	-	-	-	-	**515**	-	**515**
Other assets	-	-	-	-	-	-	**20,813**	**20,813**
CVA	**20,813**	**20,813**	**20,813**	**20,813**	**20,813**	**1,961**	**20,813**	**126,842**
Total credit risk	**103,029**	**23,499**	**23,515**	**62,300**	**103,964**	**38,189**	**41,627**	**396,123**
Market risk	**1,961**	**1,961**	**1,961**	**1,961**	**1,961**	**5,212**	**5,212**	**20,230**
Operational risk	**5,353**	**175**	**3,270**	**2,022**	**3,950**	**2,676**	**3,072**	**20,518**
Total risk assets	**87,568**	**2,860**	**5,971**	**43,509**	**87,101**	**46,077**	**23,886**	**296,973**

	31 December 2015(a)							
	House-holds	Private banking	Small businesses	Mid-size Businesses	Large Businesses	Financial manage-ment	Others	Total
	NIS milions							
Sovereign debts	-	-	-	-	-	923	-	923
Debts of public sector entities	-	-	-	-	2,013	721	-	2,734
Debts of banking corporations	-	-	-	-	-	3,693	-	3,693
Debts of securities companies	-	-	-	-	-	173	-	173
Debts of corporations	-	-	-	33,775	51,984	20,977	-	106,737
Debts collateralised by commercial real estate	-	-	-	20,281	31,215	-	-	51,497
Retail exposures to individuals	31,255	2,166	-	-	-	-	-	33,421
Small business loans	3,808	264	1,049	2,539	3,908	-	-	11,567
Housing mortgages	42,195	2,924	-	-	-	-	-	45,119
Securitization	-	-	-	-	-	578	-	578
Other assets	-	-	-	-	-	-	18,952	18,952
CVA	18,952	18,952	-	-	-	1,640	-	39,544
Total credit risk	96,209	24,306	1,049	56,595	89,121	28,705	18,952	314,938
Market risk	######	######	1,640,000	1,640,000	-	5,167	-	######
Operational risk	5,712	396	1,573	3,809	5,863	2,366	712	20,432
Total risk assets	82,970	5,750	2,622	60,405	94,985	36,239	19,664	302,634

(a) Restated in light of the Banking Supervision Department circular regarding reporting operating segments.

Table 10 - Movements in risk-weighted assets (EDTF)

Changes in credit risk assets

	For the nine months ended 30 September	**For the three months ended 30 September**	For the year ended 31 December 2015
	NIS millions		
Opening balance	**277,034**	**273,129**	273,881
New transactions	**(4,044)**	**(959)**	6,030
Change in rating	**(611)**	**(90)**	(658)
Exchange rate differentials	**(2,093)**	**(786)**	(801)
Entry / exit from failure	**34**	**251**	220
Derivative transactions, net	**(395)**	**153**	(2,227)
Other	**1,317**	**(456)**	589
Closing balance	**271,243**	**271,243**	277,034

Changes in market risk assets

	For the nine months ended 30 September	**For the three months ended 30 September**	For the year ended 31 December 2015
	NIS millions		
Opening balance	**5,167**	**6,369**	10,839
Interest risk - decrease in open positions	**(169)**	**(518)**	(3,175)
Foreign currency risk - reduction in open short positions in dollars	**208**	**(255)**	(1,154)
Shares risk - reduction in futures contracts and options on stock indices	**6**	**(200)**	(1,155)
Options risk - reduction in foreign currency option scenarios	**(1)**	**(183)**	(187)
Closing balance	**5,212**	**5,212**	5,167

Changes in operational risk assets

	For the nine months ended 30	**For the three months ended 30**	For the year ended 31 December 2015
	NIS millions		
Opening balance	**20,432**	**20,433**	20,317
Changes	**86**	**85**	115
Closing balance	**20,518**	**20,518**	20,432

Leverage Ratio (Third Pillar)

On 28 April 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive No. 218 on the "Leverage Ratio".

The directive adopts the Basel Committee's instruction from January 2014, to add a simple and non-risk based leverage ratio to serve as a supplementary metric of risk-based capital requirements, and to limit the accumulation of leveraging in the banking sector.

The leverage ratio is defined as the measurement of equity divided by the measurement of exposure, expressed as a percentage. Equity, for purposes of measuring the leverage ratio, is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements as set forth. The total exposure measurement of a banking corporation is the amount of balance-sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items.

Pursuant to the Directive, all banking corporations will be required to have a leverage ratio of no less than 5% on a consolidated basis. Also, a banking corporation whose balance sheet assets on a consolidated basis amount to 20% or more of the total balance sheet assets in the banking system, will have a leverage ratio of no less than 6%. This additional Directive applies to Leumi.

A banking corporation that, by the date of the publication of the Directive, does not meet the aforementioned required leverage ratio, is required to increase the leverage ratio in fixed quarterly installments before 1 January 2018. A banking corporation which meets the minimum leverage ratio on the date of publication of the Directive, shall not fall below the predefined threshold.

On the date of publication of the Directive, Leumi met the required threshold. The leverage ratio at 30 September 2016 was 6.81%.

Table 11 - the Bank's leverage ratio on a consolidated basis and the main subsidiaries according to Basel (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millons		
A. Consolidated data			
Tier 1 shareholders' equity	**32,255**	28,708	29,001
Total exposures	**473,817**	453,101	462,680
Leverage ratio			
Leverage ratio	**6.81%**	6.34%	6.27%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%	6.00%
B. Significant subsidiary companies			
Leumi Card Ltd.			
Leverage ratio	**11.21%**	11.18%	11.66%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%	5.00%
Bank Leumi USA[(a)]			
Leverage ratio	**9.42%**	9.24%	9.98%

(a) Implemented in accordance with local regulation, under which there are no minimum requirements for the leverage ratio.

(b) These figures include adjustments in respect of the efficiency plan set in accordance with the letter from the Supervisor of Banks dated 12 January 2016, entitled "Operational Streamlining of the Banking System in Israel" (hereinafter: adjustments for the efficiency plan), which gradually decrease until 30 June 2021.

Table 12 - Comparison of the assets in the balance sheet with the measurement of exposure for the purpose of the leverage ratio (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millons		
Total assets in accordance with the consolidated financial statements	**431,758**	408,524	416,499
Adjustments in respect of:	**-**	-	-
Investments in entities in banking, finance, insurance or commerce that were consolidated for accounting purposes, but for which consolidation is not applicable for regulatory purposes	**-**	-	-
Trust assets recognized in the balance sheet pursuant to the Public Reporting Directives, but were not included in the measurement of exposure of the leveraging ratio	**-**	-	-
Derivative financial instruments	**(6,133)**	(5,686)	(4,266)
Securities financing transactions	-	-	-
Off-balance sheet items	**45,892**	48,343	48,564
Others	**2,301**	1,915	1,883
Exposure for purposes of leveraging ratio	**473,817**	453,097	462,680

Table 13 - Additional disclosure on the leverage ratio (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millons		
Balance sheet exposures			
Balance sheet assets (except for derivatives and securities financing transactions, but including collaterals)	**419,866**	392,782	404,044
Amounts in respect of assets deducted for purposes of determining Tier 1 shareholders' equity	**(553)**	(876)	(922)
Total balance sheet exposures	**419,312**	391,906	403,122
Exposures in respect of derivatives			
Replacement cost related to all the transactions in respect of derivatives (for example, after reduction of eligible variable cash-collateral	**1,638**	4,079	1,671
Amounts of additions in respect of potential future exposure related to all the transactions in respect of derivatives	**5,819**	6,899	5,847
Deductions of assets of debtors in respect of variable cash-collateral given in transactions in derivatives	**(1,960)**	(1,349)	(533)
Total exposures in respect of derivatives	**5,497**	9,628	6,984
Exposures in respect of securities financing transactions			
Gross assets in respect of securities financing transactions (without recognizing set-offs), after adjustments in respect of transactions dealt with as an accounting sale	**1,409**	1,441	1,875
Exposures in respect of transactions as an agent	**1,707**	1,778	2,135
Total exposures in respect of securities financing transactions	**3,116**	3,219	4,010
Other off-balance sheet exposures			
Total off-balance sheet exposure at gross notional value	**126,915**	134,687	130,384
Of which: conversion coefficient 0%	**4,104**	3,567	4,763
conversion coefficient 10%	**27,485**	30,195	26,271
conversion coefficient 20%	**24,164**	26,691	22,697
conversion coefficient 50%	**65,703**	68,488	70,513
conversion coefficient 100%	**5,459**	5,746	6,141
(Adjustments in respect of conversion to equivalent credit amounts)	**(81,023)**	86,343	(81,821)
Total off-balance sheet after conversion to credit value	**45,892**	48,343	48,564
Capital and total exposures			
Tier 1 shareholders' equity[(a)]	**32,255**	28,708	29,001
Total exposures	**473,817**	453,097	462,680
Leverage ratio			
Leverage ratio according to the Proper Conduct of Banking Business Directive No. 218	**6.81**	6.34	6.27

Risk exposure and its assessment

Risk management in Leumi

During the quarter there were no material changes in the organizational structure and in the manner of operation of the corporate governance for risks management. This chapter should be read in conjunction with the annual Report on Risks.

Risk management is an essential condition for complying with the Group's current objectives and long-term goals. The Group is engaged in a wide range of activities involving taking on financial risks, including credit risks, market and liquidity risks and other non-financial risks, such as operating risks, including technological and cyber risks, legal risks, regulatory risks, goodwill risks and compliance risks.
The main areas of responsibility of the Risk Management Division correspond to those defined in the provisions of Proper Conduct of Banking Management Directive No. 310, dealing with risk management.

The methods and procedures for working in the risk management field in Israel and abroad, are examined and revised on an ongoing basis, taking into account the changes occurring in the business environment, the requirements of the Bank of Israel, and other relevant regulatory authorities in Israel and abroad.

The framework used for estimating and managing the risks and for a basis for decision-making, includes:

a. The risk appetite, which defines the boundaries for business activity, both on a routine basis, and in a stress scenario, and which defines, inter-alia, the establishment of risk policies and restrictions for each type of risk.

b. Working processes defined for analyzing and managing risk at the single transaction level and at the portfolio level.

c. Periodic reports for risk evaluation, while accounting for changes in the environment in which the Bank operates, conducting various potential scenarios at various levels of severity, for assessing the potential losses and implications for the Bank, and the definition of general plans of action to be carried out in order to contend with/mitigate the risks.

The assessment of risks at the overall level of the Group and the level of activity and single transaction is based on several structured methodologies, some based on expert assessments in each area of activity, and others on the basis of various types of statistical models. The changes in the risk environment in Israel and around the world, as well as the changes in the perception of risk, require the Bank to revise its assessments and the methodologies it employs, while constantly being challenged by the internal, and sometimes external, entities.

Risk management in Leumi relies on a methodology of three "lines of defense". In addition to these three lines of defense, the Board of Directors is involved in determining, supervising and challenging the risk levels to which the Bank and the Group are exposed.

The Chief Risk Officer, who is a member of the Bank's management and Head of the Risk Management Division, is responsible for spearheading the management of the main risks in the Bank and in the Group, while the management of legal and compliance risks is within the authority of the Bank's Chief Legal Counsel, and the management of reputational risks is within the responsibility of the Digital Banking Division.

Risk management control and monitoring are conducted by the management's committees for various risk management, as well as the Board of Directors' Risk Management Committee. The committees discuss the aspects of exposures to various risks, outline policy documents, examine risk profiles and determine internal restrictions and control processes in accordance with the market conditions and the Bank's risk appetite.

Risk management in the subsidiaries is conducted in accordance with the principles prescribed at the Group level, with policy documents of the subsidiaries corresponding to the Group's policy, reflecting relevant changes as far as is required.

The Group's risk appetite outlines the boundaries for business activity, both in the normal course of business and in a stress scenario. The risk appetite is adapted to Leumi's strategy and to the business focus boundaries on which it has chosen to concentrate and with a forward-looking view.

There is an appropriate organizational culture of risk management in the Leumi Group, based on strong risk management, which is the key to effective risk management.

Credit risks

Credit is the principal core activity of the Bank and the Group, taking place in a diversified manner in a number of lines of business. The credit risk is the risk of the Bank for loss as a result of the possibility that a counterparty will not meet its obligations vis-à-vis the banking corporation, as agreed. This is in reference to credit to the public, derivatives, bank deposits, investments in bonds, and capital holdings.

The Bank's credit policy:

The Bank implements an overall policy for managing the credit risk, in accordance with the provisions of Proper Conduct of Banking Business Directive No. 311 and Proper Conduct of Banking Business Directive No. 314, including the responsibility of Management and the Board of Directors. In addition, the Bank takes care to manage the risk in accordance with the additional instructions and requirements in the Directives of the Banking Supervision Department, while implementing corporate governance that includes three "lines of defense".

A credit policy and credit risks document at a Group level outlines the framework and supra-principles for the Bank's policy documents and each of the subsidiaries in the Group, both in Israel and abroad. In addition, this document includes the limitations in credit, which are defined and managed at a Group level.

The Bank's credit policy and credit risks document constitutes a principle reflection of the Bank's credit risk strategy, along with the existing procedures for identifying, measuring, monitoring, supervising and controlling the credit risk. The credit policy and existing procedures relate to the credit risk in all of the Bank's activities, both for the single loan, and for the entire credit portfolio.

During the third quarter of 2016, there were no material changes in the organizational structure, policy and corporate governance of credit risk management, as detailed in the Bank's 2015 Report on Risks.

In accordance with the Banking Supervision Department's provisions, in the report of the third quarter of 2016, the calculation of the collective allowance will continue to include, inter-alia, the write-off rates from 2011. Hence, the calculation in 2016 is based, among other things, on the write-off rates of the last six years. For additional information regarding the collective allowance, see annual report.

Credit concentrations

The concentration risk is defined as a single exposure or group of exposures with a common denominator and a potential for causing significant losses. Concentration risk management is conducted mainly by determining restrictions and monitoring and controlling compliance therewith. There are no material changes in these limitations compared with the end of 2015 and the Bank complies with all the limitations – regulatory and internal.

On 29 September 2016 the Banking Supervision Department publish an amendment to Proper Conduct of Banking Business Directive no.315 regarding the Supplementary Provisions for Doubtful Debts. In accordance with the amendment, the method of measuring the industry sector concentration of indebtedness will be changed, so that the credit risk, which stems from the banking housing guarantees (sales guarantees), against which the banks insured through the insurance companies abroad, shall be classified, in regards to this directive, mainly under the financial services sector, instead of under credit in the real estate sector. Following this change the concentration ratio to the construction and real estate sector decreased.

Activity and risk restrictions in the construction and real estate sector

The real estate sector is the area of activity in which the Bank has the largest exposure of all sectors of the economy. As with other sectors of the economy, restrictions at the sector level and sub-sector level are defined for the real estate sector as part of the credit and credit risk policy. The methodology and parameters for financing transactions are also defined.

Table 14 - Development of obligations for the construction and real estate sector:

	30 September		31 December		
	2016	2015	2015	Change	
	NIS millions			NIS millions	Percentages
Balance sheet credit risk	**50,393**	50,567	50,631	(174)	(0.3)%
Guarantees to apartment purchasers[(a)]	**8,448**	8,455	8,379	(7)	(0.1)%
Other off-balance sheet credit risk	**29,298**	29,843	29,298	(545)	(1.8)%
Total	**88,140**	88,865	88,308	(168)	(0.8)%

(a) Weighted to balance sheet equivalent

Groups of borrowers[1]

The Bank monitors the credit exposure of the big groups of borrowers in all their components, for the purposes of regularly reporting to the Bank of Israel, for internal monitoring, and for examination of compliance of the scope of liabilities with the regulatory limitations and for internal monitoring.

As of 1 January 2016, Proper Conduct of Banking Business Directive No. 313 on "Limitations on the Indebtedness of a Single Borrower and of a Group of Borrowers" came into effect. The main update of

[1] A group of borrowers is defined as all the following together: the borrower, a person controlling it or anyone controlled thereby. When a corporation is controlled by more than one individual, it is required to include in one group of borrowers those controllers for which the controlled corporation is material (e.g. from a capital perspective), including the controlled corporation and anyone controlled by them; an investee corporation which is material for a holder who has no control and anyone controlled by them; borrowers related in such a way that the impairment in the financial stability of any of them is likely to have implications for the financial stability of the other, or that those entities are likely to have implications for the financial stability of both of them.

the Directive is in the transition to Tier 1 shareholders' equity (gradually, until 31 December 2018) in respect of which the restrictions are defined, namely making the restrictions on granting credit to a single borrower and a group of borrowers more severe.
The Bank complies with the updated limitation as of 30 September 2016, and is prepared to comply with all gradual milestones of the transitional directives before December 31, 2018.

Single Borrower and Group of Borrowers Limitations

1. As of 30 September 2016, the Group had no credit exposure to a group of borrowers whose indebtedness exceeded 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).

   As at 30 September 2016, the Group has no credit exposure to large borrowers, groups of borrowers, and banking groups of borrowers whose indebtedness exceeds 10% of the Bank's capital. The regulatory restriction constitutes 120% of the Bank's capital.

Table 15- Credit risk exposure by principal types of credit exposures[a] (Third Pillar)

	30 September				31 December	
	2016[h]		2015		2015	
	Gross credit risk exposure[b]	Average gross credit risk exposure	Gross credit risk exposure[b]	Average gross credit risk exposure	Gross credit risk exposure[b]	Average gross credit risk exposure
	NIS millions					
Type of credit exposure:						
Credit[c]	**323,101**	**322,545**	313,305	308,557	322,511	311,348
Bonds[d]	**67,797**	**66,071**	52,724	47,836	56,013	49,471
Others[e]	**17,039**	**16,795**	16,783	17,096	17,119	17,101
Guarantees and liabilities on account of customers	**127,068**	**129,156**	134,828	134,353	130,531	133,589
Derivatives[f]	**8,547**	**8,538**	11,731	11,416	8,653	10,864
Total	**543,552**	**543,105**	529,371	519,258	534,827	522,373

(a) After deducting accounting write-offs, but before deducting allowances for credit losses on individual and collective basis.
(b) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities as credit), before deducting credit risk as a result of performing certain transactions (for example, by using guarantees) and after offsetting transactions in derivatives (netting).
(c) Including credit to the public, credit to the Government, and deposits in central banks, and after deducting liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(d) Not including the bonds included in the trading portfolio and not including investments in capital of financial corporations.
(e) Including cash, investments in financial corporations not deducted from capital, advance payments to the tax authorities, shares and other assets without counterparty such as buildings and equipment.
(f) Positive fair value of derivatives, including an add-on reflecting the amount of potential future exposure to credit in respect of the balance of nominal value of derivative instruments and after offsetting transactions in derivatives (netting).

Table 16 – Exposure of credit risk according to counterparty and principle credit exposure types[(a)] (Third Pillar)

	30 September 2016					
	Credit[(c)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Sovereign debts	**50,364**	**48,285**	**-**	**578**	**28**	**99,255**
Debts of public sector entities	**3,906**	**9,112**	**-**	**986**	**121**	**14,125**
Debts of banking corporations	**7,019**	**4,246**	**-**	**4,555**	**2,611**	**18,431**
Debts of securities companies	**-**	**456**	**-**	**-**	**432**	**888**
Debts of corporations	**86,877**	**2,507**	**-**	**45,198**	**5,326**	**139,908**
Debts collateralised by commercial real estate	**33,232**	**-**	**-**	**35,712**	**-**	**68,944**
Retail exposures to individuals	**44,200**	**-**	**-**	**29,963**	**28**	**74,191**
Small business loans	**16,497**	**-**	**-**	**4,904**	**1**	**21,402**
Housing mortgages	**81,006**	**-**	**-**	**5,172**	**-**	**86,178**
Securitization	**-**	**3,191**	**-**	**-**	**-**	**3,191**
Other assets	**-**	**-**	**17,039**	**-**	**-**	**17,039**
Total in respect of credit risk	**323,101**	**67,797**	**17,039**	**127,068**	**8,547**	**543,552**

	30 September 2015					
	Credit[(c)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Sovereign debts	42,316	38,160	-	442	37	80,955
Debts of public sector entities	3,908	5,156	-	439	30	9,533
Debts of banking corporations	8,218	3,421	-	2,828	2,376	16,843
Debts of securities companies	-	590	-	-	396	986
Debts of corporations	88,601	2,064	-	50,587	8,843	150,095
Debts collateralised by commercial real estate	33,544	-	-	37,813	-	71,357
Retail exposures to individuals	41,012	-	-	32,907	45	73,964
Small business loans	15,780	-	-	4,708	4	20,492
Housing mortgages	79,926	-	-	5,104	-	85,030
Securitization	-	3,333	-	-	-	3,333
Other assets	-	-	16,783	-	-	16,783
Total in respect of credit risk	313,305	52,724	16,783	134,828	11,731	529,371

(a) After deducting accounting write-offs, but before deducting allowances for credit losses on individual and collective basis.

(b) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities as credit), before deducting credit risk as a result of performing certain transactions (for example, by using guarantees) and after offsetting transactions in derivatives (netting).

(c) Including credit to the public, credit to the Government, and deposits in central banks, and after deducting liabilities in respect of transactions in derivative instruments subject to CSA agreements.

(d) Not including the bonds included in the trading portfolio and not including investments in capital of financial corporations.

(e) Including cash, investments in financial corporations not deducted from capital, advance payments to the tax authorities, shares and other assets without counterparty such as buildings and equipment.

(f) Positive fair value of derivatives, including an add-on reflecting the amount of potential future exposure to credit in respect of the balance of nominal value of derivative instruments and after offsetting transactions in derivatives (netting).

	31 December 2015					
	Credit(c)	Bonds(d)	Others(e)	Guarantees and other liabilities	Transactions in derivative financial instruments(f)	Total(b)
	NIS millions					
Sovereign debts	52,508	38,320	-	321	28	91,177
Debts of public sector entities	3,838	6,509	-	503	45	10,895
Debts of banking corporations	5,691	4,736	-	3,228	2,218	15,873
Debts of securities companies	-	598	-	-	423	1,021
Debts of corporations	87,923	2,459	-	48,611	5,908	144,901
Debts collateralised by commercial real estate	33,354	-	-	37,845	-	71,199
Retail exposures to individuals	42,003	-	-	29,110	29	71,142
Small business loans	16,150	-	-	4,713	2	20,865
Housing mortgages	81,044	-	-	6,200	-	87,244
Securitization	-	3,391	-	-	-	3,391
Other assets	-	-	17,119	-	-	17,119
Total in respect of credit risk	322,511	56,013	17,119	130,531	8,653	534,827

(a) After deducting accounting write-offs, but before deducting allowances for credit losses on individual and collective basis.

(b) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities as credit), before deducting credit risk as a result of performing certain transactions (for example, by using guarantees) and after offsetting transactions in derivatives (netting).

(c) Including credit to the public, credit to the Government, and deposits in central banks, and after deducting liabilities in respect of transactions in derivative instruments subject to CSA agreements.

(d) Not including the bonds included in the trading portfolio and not including investments in capital of financial corporations.

(e) Including cash, investments in financial corporations not deducted from capital, advance payments to the tax authorities, shares and other assets without counterparty such as buildings and equipment.

(f) Positive fair value of derivatives, including an add-on reflecting the amount of potential future exposure to credit in respect of the balance of nominal value of derivative instruments and after offsetting transactions in derivatives (netting).

Table 17- Distribution of the portfolio by term to maturity and by main types of credit exposure[(a)] (Third Pillar)

	30 September 2016					
	Credit[(C)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Up to 1 year	**143,346**	**31,405**	**5,229**	**74,215**	**4,637**	**258,832**
From 1 to 5 years	**80,168**	**17,449**	**1,273**	**31,493**	**6,230**	**136,613**
Above 5 years	**99,175**	**18,943**	**4,417**	**21,360**	**4,933**	**148,828**
Non-monetary items	**412**	**-**	**6,120**	**-**	**5,660**	**12,192**
Benefits for offsetting	**-**	**-**	**-**	**-**	**(12,913)**	**(12,913)**
Total	**323,101**	**67,797**	**17,039**	**127,068**	**8,547**	**543,552**

	30 September 2015					
	Credit[(C)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Up to 1 year	138,058	34,165	4,223	85,349	6,675	268,470
From 1 to 5 years	79,305	6,866	353	20,266	6,841	113,631
Above 5 years	95,595	11,693	4,508	29,213	6,505	147,514
Non-monetary items	347	-	7,699	-	5,678	13,724
Benefits for offsetting	-	-	-	-	(13,968)	(13,968)
Total	313,305	52,724	16,783	134,828	11,731	529,371

	31 December 2015					
	Credit[(c)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Up to 1 year	145,461	30,131	4,600	77,632	4,425	262,249
From 1 to 5 years	80,524	9,220	919	33,373	5,753	129,789
Above 5 years	96,114	16,662	4,508	19,526	5,472	142,282
Non-monetary items	412	-	7,092	-	5,277	12,781
Benefits for offsetting	-	-	-	-	(12,274)	(12,274)
Total	322,511	56,013	17,119	130,531	8,653	534,827

(a) After deducting accounting write-offs, but before deducting allowances for credit losses on individual and collective basis.
(b) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities as credit), before deducting credit risk as result of execution of certain actions (for example, by use of guarantees) and after offsetting transactions in derivatives (netting).
(c) Including credit to the public, credit to the Government, and deposits in central banks, and after deducting liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(d) Not including the bonds included in the trading portfolio and not including investments in capital of financial corporations.
(e) Including cash, investments in financial corporations not deducted from capital, advance payments to the tax authorities, shares and other assets without a counterparty such as buildings and equipment.

(f) Positive fair value of derivatives, including an add-on reflecting the amount of potential future exposure to credit in respect of the balance of nominal value of derivative instruments and after offsetting transactions in derivatives (netting).

Table 18 – Total credit risk to the public by economic sector

	30 September 2016									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
								Credit losses[d]		
					[1]Of which:					
	Total	Credit performance rating[f]	Problematic[e]	[1]Total	Debts[b]	Problematic[e]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers in Israel										
Public-commercial										
Agriculture	**2,159**	**2,019**	**140**	**2,157**	**1,819**	**140**	**74**	**13**	**4**	**(49)**
Mining and quarrying	**799**	**799**	**-**	**680**	**268**	**-**	**-**	**-**	**-**	**-**
Industry	**22,622**	**21,318**	**1,304**	**22,353**	**15,122**	**1,300**	**493**	**(173)**	**(174)**	**(543)**
Construction & real-estate - construction[g]	**46,694**	**45,223**	**1,471**	**46,487**	**16,181**	**1,471**	**261**	**(32)**	**8**	**(304)**
Construction & real-estate - real-estate activity	**26,803**	**25,602**	**1,201**	**26,733**	**24,007**	**1,199**	**830**	**(223)**	**(74)**	**(445)**
Electricity & water	**4,822**	**4,454**	**368**	**4,550**	**3,084**	**368**	**270**	**24**	**1**	**(54)**
Commerce[h]	**27,499**	**26,241**	**1,258**	**27,339**	**22,097**	**1,230**	**273**	**38**	**(14)**	**(351)**
Hotels, accomodation and food services	**2,844**	**2,453**	**391**	**2,793**	**2,525**	**391**	**255**	**(77)**	**(81)**	**(33)**
Transport and storage	**7,736**	**7,471**	**265**	**7,623**	**6,237**	**264**	**195**	**13**	**7**	**(41)**
Communications & computer services	**6,385**	**6,156**	**229**	**5,696**	**4,276**	**225**	**214**	**(9)**	**(1)**	**(68)**
Financial services	**19,733**	**19,198**	**535**	**14,174**	**10,050**	**535**	**531**	**(100)**	**(22)**	**(222)**
Business & other services	**8,725**	**8,569**	**156**	**8,687**	**6,050**	**156**	**68**	**72**	**28**	**(139)**
Public & community services	**8,302**	**8,248**	**54**	**8,288**	**6,974**	**54**	**31**	**16**	**9**	**(51)**
Total commercial	**185,123**	**177,751**	**7,372**	**177,560**	**118,690**	**7,333**	**3,495**	**(438)**	**(309)**	**(2,300)**
Private individuals - housing loans	**82,673**	**81,975**	**698**	**82,673**	**80,594**	**697**	**-**	**-**	**21**	**(475)**
Private individuals - other	**67,518**	**66,904**	**614**	**67,509**	**38,105**	**614**	**122**	**282**	**207**	**(776)**
Total public - activity in Israel	**335,314**	**326,630**	**8,684**	**327,742**	**237,389**	**8,644**	**3,617**	**(156)**	**(81)**	**(3,551)**
Banks in Israel	**7,856**	**7,856**	**-**	**2,261**	**2,179**	**-**	**-**	**(1)**	**-**	**(2)**
Government of Israel	**47,996**	**47,996**	**-**	**226**	**226**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**391,166**	**382,482**	**8,684**	**330,229**	**239,794**	**8,644**	**3,617**	**(157)**	**(81)**	**(3,553)**

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 239,794, 47,590, 896, 5,046, 97,840 million, respectively.

(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,044 million, which were extended to purchasing groups in the process of construction.

	30 September 2016									
	Overall credit risk(a)			Debts(b) and off-balance sheet credit risk (excluding derivatives)(c)						
					[1]Of which:			Credit losses(d)		
	Total	Credit performance rating(f)	Problematic(e)	[1]Total	Debts(b)	Problematic(e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers abroad										
Public-commercial										
Agriculture	**69**	**68**	**1**	**67**	**50**	**1**	**1**	**(1)**	**-**	**(1)**
Mining and quarrying	**41**	**41**	**-**	**32**	**26**	**-**	**-**	**-**	**-**	**-**
Industry	**8,329**	**8,064**	**265**	**6,806**	**4,333**	**266**	**47**	**(23)**	**18**	**(42)**
Construction & real-estate(g)	**13,528**	**12,994**	**534**	**13,122**	**9,755**	**534**	**340**	**(26)**	**(2)**	**(198)**
Electricity & water	**179**	**179**	**-**	**93**	**46**	**-**	**-**	**-**	**-**	**-**
Commerce(h)	**6,676**	**6,598**	**78**	**6,577**	**4,598**	**78**	**67**	**23**	**6**	**(91)**
Hotels, accomodation and food services	**1,961**	**1,955**	**6**	**1,961**	**1,645**	**6**	**-**	**(1)**	**-**	**(9)**
Transport and storage	**118**	**57**	**61**	**102**	**97**	**61**	**61**	**13**	**19**	**(15)**
Communications &computer services	**2,078**	**2,078**	**-**	**1,826**	**877**	**-**	**-**	**-**	**-**	**(1)**
Financial services	**17,075**	**16,956**	**119**	**2,420**	**1,735**	**119**	**119**	**(7)**	**(3)**	**(48)**
Business & other services	**6,353**	**6,314**	**39**	**6,219**	**5,240**	**39**	**21**	**8**	**-**	**(24)**
Public & community services	**695**	**687**	**8**	**692**	**492**	**8**	**8**	**(1)**	**-**	**(18)**
Total commercial	**57,102**	**55,991**	**1,111**	**39,917**	**28,894**	**1,112**	**664**	**(15)**	**38**	**(447)**
Private individuals - housing loans	**1,062**	**1,016**	**46**	**1,062**	**1,054**	**47**	**47**	**1**	**6**	**(11)**
Private individuals - other	**635**	**629**	**6**	**632**	**558**	**5**	**5**	**-**	**-**	**(5)**
Total public - activity abroad	**58,799**	**57,636**	**1,163**	**41,611**	**30,506**	**1,164**	**716**	**(14)**	**44**	**(463)**
Banks abroad	**23,304**	**23,304**	**-**	**11,516**	**9,617**	**-**	**-**	**-**	**-**	**-**
Governments abroad	**13,541**	**13,541**	**-**	**843**	**397**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**95,644**	**94,481**	**1,163**	**53,970**	**40,520**	**1,164**	**716**	**(14)**	**44**	**(463)**
Total	**486,810**	**476,963**	**9,847**	**384,199**	**280,314**	**9,808**	**4,333**	**(171)**	**(37)**	**(4,016)**

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 40,520, 32,785, -, 6,586, 15,753 million, respectively.

(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

	30 September 2015									
	Overall credit risk[(a)]			Debts[(b)] and off-balance sheet credit risk (excluding derivatives)[(c)]						
								Credit losses[(d)]		
					[1]Of which:					
	Total	Credit performance rating[(f)]	Problematic[(e)]	[1]Total	Debts[(b)]	Problematic[(e)]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers Israel Public-commercial										
Agriculture	2,001	1,914	87	1,996	1,702	86	43	19	(13)	(43)
Mining and quarrying	693	684	9	595	272	9	-	(3)	-	(1)
Industry	25,515	22,826	2,689	24,881	15,864	2,682	413	32	(38)	(506)
Construction & real-estate	48,357	46,698	1,659	48,262	16,973	1,659	679	54	(19)	(338)
Construction & real-estate-Activity	26,919	25,007	1,912	26,856	24,182	1,912	1,241	(18)	4	(630)
Electricity & water	5,740	5,677	63	4,735	3,173	63	-	-	-	(34)
Commerce	26,559	25,348	1,211	26,375	21,472	1,179	221	(49)	5	(328)
Hotels, accomodation and food services	2,968	2,772	196	2,941	2,590	196	150	9	5	(36)
Transport and storage	6,776	6,363	413	6,692	5,919	413	287	12	10	(50)
Communications &computer services	6,473	6,125	348	6,048	4,264	346	333	7	(9)	(148)
Financial services	23,352	23,275	77	15,447	9,239	77	65	(126)	17	(270)
Business & other services	7,401	7,285	116	7,358	5,173	104	36	27	22	(78)
Public & community services	7,647	7,617	30	7,600	6,363	30	12	-	2	(42)
Total commercial	190,401	181,591	8,810	179,786	117,186	8,756	3,480	(36)	(14)	(2,504)
Private individuals - housing loans	82,072	81,318	754	82,072	79,496	754	-	11	4	(501)
Private individuals - other	69,503	69,099	404	69,490	36,542	404	74	199	183	(654)
Total public - activity abroad	341,976	332,008	9,968	331,348	233,224	9,914	3,554	174	173	(3,659)
Banks abroad	7,170	7,170	-	3,284	2,288	-	-	2	-	(2)
Governments abroad	39,240	39,240	-	283	283	-	-	-	-	-
Total	388,386	378,418	9,968	334,915	235,795	9,914	3,554	176	173	(3,661)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 235,793, 39,023, 1,420, 7,361, 104,789 million, respectively.

(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,214 million, which were extended to purchasing groups in the process of construction.

	30 September 2015									
	Overall credit risk(a)			Debts(b) and off-balance sheet credit risk (excluding derivatives)(c)						
					[1]Of which:			Credit losses(d)		
	Total	Credit performance rating(f)	Problematic(e)	[1]Total	Debts(b)	Problematic(e)	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers abroad Public-commercial										
Agriculture	113	109	4	113	50	4	4	1	-	(2)
Mining and quarrying	10	10	-	1	1	-	-	-	-	-
Industry	8,933	8,468	465	8,307	5,253	465	129	(8)	4	(123)
Construction & real-estate	13,589	13,038	551	13,028	8,914	551	521	9	36	(269)
Electricity & water	374	374	-	137	83	-	-	-	-	(1)
Commerce	7,396	7,302	94	7,362	4,922	94	93	(8)	50	(97)
Hotels, accomodation and food services	1,239	1,201	38	1,232	1,141	38	38	(2)	-	(10)
Transport and storage	256	162	94	236	129	94	94	(2)	5	(25)
Communications &computer services	1,867	1,865	2	1,718	792	2	2	(1)	-	(1)
Financial services	16,691	16,593	98	3,460	2,348	98	98	26	10	(74)
Business & other services	5,123	5,046	77	4,910	4,420	77	34	(3)	(1)	(15)
Public & community services	902	901	1	844	441	1	1	(17)	49	(18)
Total commercial	56,493	55,069	1,424	41,348	28,494	1,424	1,014	(5)	153	(635)
Private individuals - housing loans	1,222	1,171	51	1,222	1,216	51	30	-	2	(16)
Private individuals - other	997	973	24	989	888	24	23	(2)	4	(8)
Total public - activity abroad	58,712	57,213	1,499	43,559	30,598	1,499	1,067	(7)	159	(659)
Banks abroad	24,067	24,067	-	12,032	10,167	-	-	(3)	-	(1)
Governments abroad	10,140	10,140	-	494	191	-	-	-	-	-
Total activity abroad	92,919	91,420	1,499	56,085	40,956	1,499	1,067	(10)	159	(660)
Total	481,305	469,838	11,467	391,000	276,751	11,413	4,621	166	332	(4,321)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 40,958, 24,574, -, 7,951, 19,436 million, respectively.

(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.

	31 December 2015									
	Overall credit risk[(a)]			Debts[(b)] and off-balance sheet credit risk (excluding derivatives)[(c)]						
					[1]Of which:			Credit losses[(d)]		
	Total	Credit performance rating[(f)]	Problematic[(e)]	[1]Total	Debts[(b)]	Problematic[(e)]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers Israel Public-commercial										
Agriculture	2,075	1,951	124	2,070	1,775	123	50	16	(8)	(40)
Mining and quarrying	713	713	-	583	501	-	-	(2)	-	-
Industry	24,498	22,852	1,646	24,066	15,669	1,646	577	1	(60)	(527)
Construction & real-estate[(g)]	47,249	45,433	1,816	47,155	15,688	1,815	639	65	(15)	(348)
Electricity & water	27,556	25,925	1,631	27,485	24,653	1,631	1,053	18	70	(582)
Commerce[(h)]	4,985	4,925	60	4,735	3,162	60	-	(7)	-	(28)
Hotels, accomodation and food services	26,552	25,614	938	26,374	21,531	908	244	(42)	12	(306)
Transport and storage	3,030	2,840	190	3,030	2,666	190	138	4	3	(31)
Communications &computer services	6,757	6,420	337	6,645	5,897	337	268	15	15	(39)
Financial services	6,162	5,895	267	5,871	4,128	263	255	(82)	(7)	(81)
Business & other services	20,758	20,683	75	14,709	9,570	75	62	(151)	(12)	(267)
Public & community services	7,720	7,628	92	7,701	5,462	92	34	40	30	(92)
Total commercial	7,781	7,755	26	7,742	6,523	26	11	(4)	17	(44)
Private individuals - housing loans	185,836	178,634	7,202	178,166	117,225	7,166	3,331	(129)	45	(2,385)
Private individuals - other	83,292	82,513	779	83,292	80,633	779	-	14	10	(497)
Total public - activity abroad	65,815	65,363	452	65,807	36,991	452	63	309	245	(701)
Banks abroad	334,943	326,510	8,433	327,265	234,849	8,397	3,394	194	300	(3,583)
Governments abroad	7,048	7,048	-	3,347	2,146	-	-	2	-	(2)
Total activity abroad	37,243	37,243	-	262	262	-	-	-	-	-
Total	379,234	370,801	8,433	330,874	237,257	8,397	3,394	196	300	(3,585)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 237,258, 36,036, 1,764, 5,081, 99,095 million, respectively.
(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.
(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.
(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").
(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.
(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.
(g) Including housing loans in total of NIS 1,014 million extended to certain purchasing groups in the process of construction.

	31 December 2015									
	Overall credit risk[a]			Debts[b] and off-balance sheet credit risk (excluding derivatives)[c]						
								Credit losses[d]		
					[1]Of which:					
	Total	Credit performance rating[f]	Problematic[e]	[1]Total	Debts[b]	Problematic[e]	Impaired	Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	NIS millions									
In respect of activity of borrowers abroad										
Public-commercial										
Agriculture	127	125	2	127	72	2	2	2	1	(2)
Mining and quarrying	76	76	-	37	28	-	-	-	-	-
Industry	8,239	7,909	330	6,984	4,582	330	98	(4)	27	(92)
Construction & real-estate[g]	13,291	12,654	637	12,761	9,571	637	434	10	79	(230)
Electricity & water	371	371	-	88	56	-	-	-	-	-
Commerce[h]	7,712	7,680	32	7,623	5,017	32	31	(2)	85	(79)
Hotels, accomodation and food services	1,577	1,549	28	1,577	1,441	28	24	(1)	-	(10)
Transport and storage	235	149	86	217	192	86	86	(2)	9	(31)
Communications &computer services	2,076	2,076	-	1,766	661	-	-	(1)	-	(1)
Financial services	16,994	16,902	92	2,768	1,587	92	92	45	7	(68)
Business & other services	5,477	5,426	51	5,407	4,460	51	2	(2)	(1)	(16)
Public & community services	512	511	1	501	387	1	1	(39)	14	(19)
Total commercial	56,687	55,428	1,259	39,856	28,054	1,259	770	6	221	(548)
Private individuals - housing loans	1,176	1,126	50	1,176	1,172	50	29	-	2	(16)
Private individuals - other	1,120	1,098	22	1,108	995	22	22	-	8	(6)
Total public - activity abroad	58,983	57,652	1,331	42,140	30,221	1,331	821	6	231	(570)
Banks abroad	22,269	22,269	-	10,119	8,170	-	-	(3)	-	(1)
Governments abroad	11,667	11,667	-	480	191	-	-	-	-	-
Total activity abroad	92,919	91,588	1,331	52,739	38,582	1,331	821	3	231	(571)
Total	472,153	462,389	9,764	383,613	275,839	9,728	4,215	199	531	(4,156)

(a) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments, including debts, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments as calculated for borrower debt limitations in the sum of NIS 38,581, 30,120, -, 6,169, 18,049 million, respectively.

(b) Credit to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

Table 19 – Exposure to foreign countries (Third Pillar)

	30 September 2016						
	Balance sheet exposure (a)						
	Cross-border balance sheet exposure				Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others		Balance sheet exposure before deducting	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
	(NIS millions)						
Country							
United States	**8,707**	**2,937**	**9,794**	**-**	**24,692**	**13,230**	**11,462**
United Kingdom	**246**	**3,130**	**3,804**	**-**	**7,098**	**1,759**	**5,339**
France	**1,452**	**471**	**993**	**-**	**-**	**-**	**-**
Switzerland	**-**	**850**	**893**	**-**	**69**	**49**	**20**
Germany	**-**	**2,009**	**708**	**-**	**-**	**-**	**-**
Others	**2,041**	**5,014**	**4,923**	**-**	**1,173**	**631**	**542**
Total exposure to foreign countries	**12,446**	**14,411**	**21,115**	**-**	**33,032**	**15,669**	**17,363**
Total exposure to LDC countries	**292**	**1,068**	**740**	**-**	**1,150**	**630**	**520**
Total exposure to GIIPS countries (d)	**374**	**8**	**357**	**-**	**-**	**-**	**-**

	30 September 2016						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						balance sheet	
	Total balance sheet	Problematic	Of which: balance of	balance sheet	problematic off-balance	period one year	one year
	(NIS millions)						
Country							
United States	**32,900**	**762**	**328**	**6,742**	**-**	**5,286**	**16,152**
United Kingdom	**12,519**	**226**	**225**	**3,357**	**-**	**2,927**	**4,253**
France	**2,916**	**6**	**6**	**1,073**	**-**	**1,881**	**1,035**
Switzerland	**1,763**	**-**	**-**	**384**	**-**	**1,081**	**662**
Germany	**2,717**	**-**	**-**	**187**	**-**	**1,756**	**961**
Others	**12,520**	**212**	**194**	**2,927**	**-**	**4,170**	**7,808**
Total exposure to foreign countries	**65,335**	**1,206**	**753**	**14,670**	**-**	**17,101**	**30,871**
Total exposure to LDC countries	**2,620**	**169**	**154**	**1,965**	**-**	**304**	**1,796**
Total exposure to GIIPS countries (d)	**739**	**-**	**-**	**175**	**-**	**537**	**202**

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

	30 September 2015						
	Balance sheet exposure (a)						
	Cross-border balance sheet exposure				banking corporation to local residents		
	governments	To banks	To others		exposure	local liabilities	exposure net
	(NIS millions)						
Country							
United States	7,764	3,731	8,954	-	21,102	10,220	10,882
United Kingdom	39	4,772	3,941	-	6,606	2,100	4,506
France	571	694	1,269	-	-	-	-
Switzerland	-	291	1,228	-	648	4	644
Germany	-	711	1,445	-	-	-	-
Others	625	4,076	5,486	-	1,402	678	724
Total exposure to foreign countries	8,999	14,275	22,323	-	29,758	13,002	16,756
Total exposure to LDC countries	211	1,003	818	-	1,308	671	637
Total exposure to GIIPS countries (d)	176	119	369	-	-	-	-

	30 September 2015						
	Balance sheet exposure(a)			Off-balance sheet exposure (a) (b)			
						balance sheet	
	Total		Of which:		problematic	period	
	balance sheet	Problematic	balance of	Total off-	off-balance	one year	one year
	(NIS millions)						
Country							
United States	31,331	692	343	6,623	-	8,254	12,195
United Kingdom	13,258	310	293	4,143	-	1,776	6,976
France	2,534	10	7	1,228	-	916	1,618
Switzerland	2,163	-	-	367	-	827	692
Germany	2,156	-	-	442	-	1,362	794
Others	10,911	434	420	2,494	-	2,750	7,437
Total exposure to foreign countries	62,353	1,446	1,063	15,297	-	15,885	29,712
Total exposure to LDC countries	2,669	335	322	1,679	-	606	1,426
Total exposure to GIIPS countries (d)	664	-	-	45	-	298	366

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

	31 December 2015						
	Balance sheet exposure (a)						
	Cross-border balance sheet exposure				Balance sheet exposure of foreign offices of the banking corporation to local residents		
	To governments (c)	To banks	To others		Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
	(NIS millions)						
Country							
United States	9,652	2,577	10,748	-	22,020	11,310	10,710
United Kingdom	39	2,942	3,022	-	7,015	2,143	4,872
France	552	635	942	-	-	-	-
Switzerland	-	334	1,194	-	535	101	434
Germany	-	1,519	1,583	-	-	-	-
Others	389	4,001	5,218	-	1,272	651	621
Total exposure to foreign countries	10,632	12,008	22,707	-	30,842	14,205	16,637
Total exposure to LDC countries	212	943	719	-	1,180	647	533
Total exposure to GIIPS countries (d)	97	57	408	-	-	-	-

	31 December 2015						
	Balance sheet exposure(a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
					Of which:	period	
	Total balance	balance	balance of	balance sheet	problematic	one year	one year
	(NIS millions)						
Country							
United States	33,687	733	299	6,153	-	6,941	16,036
United Kingdom	10,875	247	229	3,846	-	1,717	4,286
France	2,129	10	8	1,126	-	872	1,257
Switzerland	1,962	-	-	412	-	962	566
Germany	3,102	-	-	259	-	1,882	1,220
Others	10,229	294	282	3,068	-	2,389	7,219
Total exposure to foreign countries	61,984	1,284	818	14,864	-	14,763	30,584
Total exposure to LDC countries	2,407	210	199	2,128	-	521	1,353
Total exposure to GIIPS countries (d)	562	-	-	250	-	222	340

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.
(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.
(c) Including governments, formal institutions and central banks.
(d) Exposure to GIIPS includes the countries: Portugal, Ireland, Italy, Greece and Spain.

Table 20 – Debts[(a)] - credit quality and arrears

	30 September 2016					
		Problematic[(b)]			Unimpaired debts - additional information	
	Non-problematic	Non-impaired	Impaired[(c)]	Total	In arrears of 90 days or more[(d)]	In arrears of 30 to 89 days[(e)]
	NIS millions					
Activity of borrowers in Israel						
Public-commercial						
Construction & real estate - constructic	**15,732**	**255**	**194**	**16,181**	**19**	**41**
Construction & real estate - real estate	**22,944**	**347**	**716**	**24,007**	**10**	**15**
Financial services	**9,532**	**4**	**514**	**10,050**	**2**	**2**
Commercial - other	**64,826**	**1,810**	**1,816**	**68,452**	**49**	**127**
Total commercial	**113,034**	**2,416**	**3,240**	**118,690**	**80**	**185**
Private individuals - housing loans[(f)]	**79,897**	**697**	**-**	**80,594**	**685**	**466**
Private individuals - other	**37,500**	**484**	**121**	**38,105**	**110**	**229**
Total public - activity in Israel	**230,431**	**3,597**	**3,361**	**237,389**	**875**	**880**
Banks in Israel	**2,179**	**-**	**-**	**2,179**	**-**	**-**
Government of Israel	**226**	**-**	**-**	**226**	**-**	**-**
Total activity in Israel	**232,836**	**3,597**	**3,361**	**239,794**	**875**	**880**
Activity of borrowers abroad						
Public-commercial						
Construction & real estate	**9,391**	**25**	**339**	**9,755**	**26**	**17**
Commercial - other	**18,391**	**424**	**324**	**19,139**	**58**	**179**
Total commercial	**27,782**	**449**	**663**	**28,894**	**84**	**196**
Private individuals	**1,560**	**2**	**50**	**1,612**	**2**	**28**
Total public - activity abroad	**29,342**	**451**	**713**	**30,506**	**86**	**224**
Banks abroad	**9,617**	**-**	**-**	**9,617**	**-**	**-**
Governments abroad	**397**	**-**	**-**	**397**	**-**	**-**
Total activity abroad	**39,356**	**451**	**713**	**40,520**	**86**	**224**
Total public	**259,773**	**4,048**	**4,074**	**267,895**	**961**	**1,104**
Total banks	**11,796**	**-**	**-**	**11,796**	**-**	**-**
Total governments	**623**	**-**	**-**	**623**	**-**	**-**
Total	**272,192**	**4,048**	**4,074**	**280,314**	**961**	**1,104**

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.
(c) As a rule, impaired debts do not accrue interest income.
(d) Classified as problem debts that are not impaired, accruing interest income.
(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 584 million were classified as problem debts that are not impaired.
(f) Including balance of housing loans in the amount of NIS 119 million with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

	30 September 2015					
		Problematic[b]			additional information	
	Non-problematic	Non-impaired	Impaired[c]	Total	In arrears of 90 days or more[d]	In arrears of 30 to 89 days[e]
	NIS millions					
Activity of borrowers in Israel						
Public-commercial						
Construction & real estate - constructic	16,071	330	572	16,973	12	64
Construction & real estate - real estate	22,529	458	1,195	24,182	9	18
Financial services	9,162	12	65	9,239	1	6
Commercial - other	62,671	2,773	1,348	66,792	37	101
Total commercial	110,433	3,573	3,180	117,186	59	189
Private individuals - housing loans[f]	78,742	754	-	79,496	748	529
Private individuals - other	36,149	323	70	36,542	87	190
Total public - activity in Israel	225,324	4,650	3,250	233,224	894	908
Banks in Israel	2,288	-	-	2,288	-	-
Government of Israel	283	-	-	283	-	-
Total activity in Israel	227,895	4,650	3,250	235,795	894	908
Activity of borrowers abroad						
Public-commercial						
Construction & real estate	8,391	8	515	8,914	5	39
Commercial - other	18,734	357	489	19,580	107	441
Total commercial	27,125	365	1,004	28,494	112	480
Private individuals	2,031	19	54	2,104	18	5
Total public - activity abroad	29,156	384	1,058	30,598	130	485
Banks abroad	10,167	-	-	10,167	-	-
Governments abroad	191	-	-	191	-	-
Total activity abroad	39,514	384	1,058	40,956	130	485
Total public	254,480	5,034	4,308	263,822	1,024	1,393
Total banks	12,455	-	-	12,455	-	-
Total governments	474	-	-	474	-	-
Total	267,409	5,034	4,308	276,751	1,024	1,393

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.
(c) As a rule, impaired debts do not accrue interest income.
(d) Classified as problem debts that are not impaired, accruing interest income.
(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 575 million were classified as problem debts that are not impaired.
(f) Including balance of housing loans in the amount of NIS 158 million with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

	31 December 2015					
		Problematic[b]			Unimpaired debts -	
	Non-problematic	Non-impaired	Impaired[c]	Total	In arrears of 90 days or more[d]	In arrears of 30 to 89 days[e]
	NIS millions					
Activity of borrowers in Israel						
Public-commercial						
Construction & real estate - constructic	14,705	420	563	15,688	11	33
Construction & real estate - real estate	23,182	553	918	24,653	6	13
Financial services	9,495	13	62	9,570	2	1
Commercial - other	64,014	1,798	1,502	67,314	42	108
Total commercial	111,396	2,784	3,045	117,225	61	155
Private individuals - housing loans[f]	79,852	781	-	80,633	753	481
Private individuals - other	36,546	385	60	36,991	105	187
Total public - activity in Israel	227,794	3,950	3,105	234,849	919	823
Banks in Israel	2,146	-	-	2,146	-	-
Government of Israel	262	-	-	262	-	-
Total activity in Israel	230,202	3,950	3,105	237,257	919	823
Activity of borrowers abroad						
Public-commercial						
Construction & real estate	9,071	66	434	9,571	4	113
Commercial - other	17,785	368	330	18,483	2	128
Total commercial	26,856	434	764	28,054	6	241
Private individuals	2,096	19	52	2,167	17	4
Total public - activity abroad	28,952	453	816	30,221	23	245
Banks abroad	8,170	-	-	8,170	-	-
Governments abroad	191	-	-	191	-	-
Total activity abroad	37,313	453	816	38,582	23	245
Total public	256,746	4,403	3,921	265,070	942	1,068
Total banks	10,316	-	-	10,316	-	-
Total governments	453	-	-	480	-	-
Total	267,515	4,403	3,921	275,839	942	1,068

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.

(c) As a rule, impaired debts do not accrue interest income.

(d) Classified as problem debts that are not impaired, accruing interest income.

(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 503 million were classified as problem debts that are not impaired.

(f) Including balance of housing loans in the amount of NIS 144 million with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.

Table 21 - Changes in the allowance for credit losses

	For the three months ended 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	2,717	513	779	4,009	2	4,011
Expenses (income) in respect of credit losses	11	(5)	100	106	-	106
Accounting write-offs	(146)	(22)	(210)	(378)	-	(378)
Collection of debts written off in previous years	166	-	112	278	-	278
Net accounting write-offs	20	(22)	(98)	(100)	-	(100)
Adjustments from translation of financial statements	(1)	-	-	(1)	-	(1)
Balance of allowance for credit losses at end of year[1]	2,747	486	781	4,014	2	4,016
[1]Of which: in respect of off-balance sheet credit instruments	449	-	38	487	-	487

	For the three months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,267	516	617	4,400	3	4,403
Expenses (income) in respect of credit losses	(49)	6	116	73	-	73
Accounting write-offs	(130)	(4)	(153)	(287)	-	(287)
Collection of debts written off in previous years	45	-	81	126	-	126
Net accounting write-offs	(85)	(4)	(72)	(161)	-	(161)
Adjustments from translation of financial statements	6	(1)	1	6	-	6
Balance of allowance for credit losses at end of year[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

	For the nine months ended 30 September 2016 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	**2,933**	**513**	**707**	**4,153**	**3**	**4,156**
Expenses (income) in respect of credit losses	**(453)**	**1**	**282**	**(170)**	**(1)**	**(171)**
Accounting write-offs	**(367)**	**(27)**	**(516)**	**(910)**	**-**	**(910)**
Collection of debts written off in previous years	**638**	**-**	**309**	**947**	**-**	**947**
Net accounting write-offs	**271**	**(27)**	**(207)**	**37**	**-**	**37**
Adjustments from translation of financial statements	**(4)**	**(1)**	**(1)**	**(6)**	**-**	**(6)**
Balance of allowance for credit losses at end of year[1]	**2,747**	**486**	**781**	**4,014**	**2**	**4,016**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**38**	**487**	**-**	**487**

	For the nine months ended 30 September 2015 (Unaudited)					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,317	513	652	4,482	4	4,486
Expenses (income) in respect of credit losses	(41)	11	197	167	(1)	166
Accounting write-offs	(392)	(6)	(462)	(860)	-	(860)
Collection of debts written off in previous years	253	-	275	528	-	528
Net accounting write-offs	(139)	(6)	(187)	(332)	-	(332)
Adjustments from translation of financial statements	2	(1)	-	1	-	1
Balance of allowance for credit losses at end of year[1]	3,139	517	662	4,318	3	4,321
[1]Of which: in respect of off-balance sheet credit instruments	467	-	38	505	-	505

Credit risk – disclosure regarding portfolios handled according to the standardized approach

For the purpose of weighting the risk of exposures dealt with using the standardized approach, the Bank uses the credit ratings of three external credit rating companies:

- **Standard & Poor's Ratings Services**
- **Moody's Investors Service**
- **Fitch Ratings**

The risk weights for debts which are based on the rating of the country, governments, banks, security companies and public sector entities are attributed according to Moody's long-term credit ratings.

The risk weights for the debts of rated corporations are attributed according to the long-term credit ratings of the three companies, in the following way:

When the debt has one credit rating, this rating will be used to determine the risk weight of the debt.

When there are two credit ratings given by two different companies, which are mapped by various risk weights, the higher risk weight shall prevail.

When there are three credit ratings, the two best ratings will be considered, and of the two, the risk weight which is compatible with the lower rating will prevail.

Credit risk according to the standard approach:

The tables below show details of credit exposure by risk weighting, distribution of the exposure by counterparty, before and after credit risk mitigation for recognized collaterals.

Table 22 - The sum of exposure before credit loss expenses and before mitigation of credit risk[(b)] (Third Pillar):

	30 September 2016					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	**95,888**	**2,184**	**-**	**-**	**370**	**-**
Debts of public sector entities	**-**	**8,914**	**-**	**-**	**5,190**	**-**
Debts of banking corporations	**2,553**	**12,712**	**-**	**-**	**2,550**	**-**
Debts of securities companies	**-**	**888**	**-**	**-**	**-**	**-**
Debts of corporations	**-**	**2,127**	**-**	**-**	**1,529**	**-**
Debts collateralised by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**73,843**
Small business loans	**-**	**-**	**-**	**-**	**-**	**21,128**
Housing mortgages	**-**	**-**	**35,615**	**-**	**15,561**	**32,408**
Securitization	**-**	**2,365**	**-**	**90**	**-**	**-**
Other assets	**2,857**	**1**	**-**	**-**	**-**	**-**
Total	**101,298**	**29,191**	**35,615**	**90**	**25,200**	**127,379**

	30 September 2015					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	76,714	3,353	-	-	392	-
Debts of public sector entities	-	4,945	-	-	4,587	-
Debts of banking corporations	1,263	11,530	-	-	3,592	-
Debts of securities companies	-	986	-	-	-	-
Debts of corporations	-	1,165	-	-	1,839	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	73,690
Small business loans	-	-	-	-	-	20,254
Housing mortgages	-	-	36,821	-	13,296	28,916
Securitization	-	3,032	-	207	94	-
Other assets	2,583	-	-	-	-	-
Total	80,560	25,011	36,821	207	23,800	122,860

(a) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk as a result of taking certain actions (for example, by using guarantees) and after offsetting derivative transactions (Netting).

(b) Mitigation of credit risk reflects the classification of the final risk weighting from among the various rates(c) Restated due to due to implementation of the Supervisor of Banks' directive regarding discounting software costs.

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[a]
813	**-**	**-**	**-**	**-**	**-**	**-**	**99,255**
20	**1**	**-**	**-**	**-**	**-**	**-**	**14,125**
591	**25**	**-**	**-**	**-**	**-**	**-**	**18,431**
-	**-**	**-**	**-**	**-**	**-**	**-**	**888**
133,819	**2,433**	**-**	**-**	**-**	**-**	**-**	**139,908**
68,386	**558**	**-**	**-**	**-**	**-**	**-**	**68,944**
77	**271**	**-**	**-**	**-**	**-**	**-**	**74,191**
76	**198**	**-**	**-**	**-**	**-**	**-**	**21,402**
2,403	**191**	**-**	**-**	**-**	**-**	**-**	**86,178**
-	**-**	**-**	**-**	**-**	**-**	**736**	**3,191**
9,444	**473**	**-**	**4,264**	**-**	**-**	**-**	**17,039**
215,629	**4,150**	**-**	**4,264**	**-**	**-**	**736**	**543,552**

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[a]
496	-	-	-	-	-	-	80,955
1	-	-	-	-	-	-	9,533
414	44	-	-	-	-	-	16,843
-	-	-	-	-	-	-	986
145,040	2,051	-	-	-	-	-	150,095
70,565	792	-	-	-	-	-	71,357
92	182	-	-	-	-	-	73,964
91	147	-	-	-	-	-	20,492
5,773	224	-	-	-	-	-	85,030
-	-	-	-	-	-	-	3,333
10,616	471	-	3,113	-	-	-	16,783
233,088	3,911	-	3,113	-	-	-	529,371

	31 December 2015					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	87,183	3,098	-	-	414	-
Debts of public sector entities	-	6,298	-	-	4,596	-
Debts of banking corporations	1,808	8,312	-	-	5,238	-
Debts of securities companies	-	1,021	-	-	-	-
Debts of corporations	-	1,358	-	-	1,732	-
commercial real estate	-	-	-	-	-	-
individuals	-	-	-	-	-	70,873
Small business loans	-	-	-	-	-	20,616
Housing mortgages	-	-	37,460	-	14,360	33,008
Securitization	-	3,161	-	178	51	-
Other assets	3,131	-	-	-	-	-
Total	92,122	23,248	37,460	178	26,391	124,497

(a) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk as a result of taking certain actions (for example, by using guarantees) and after offsetting derivative transactions (Netting).

(b) Mitigation of credit risk reflects the classification of the final risk weighting from among the various rates(c) Restated due to due to implementation of the Supervisor of Banks' directive regarding discounting software costs.

100%	150%	225%	250%	350%	650%	0%	Gross credit exposure[a]
482	-	-	-	-	-	-	91,177
1	-	-	-	-	-	-	10,895
481	34	-	-	-	-	-	15,873
-	-	-	-	-	-	-	1,021
139,749	2,062	-	-	-	-	-	144,901
70,466	733	-	-	-	-	-	71,199
73	196	-	-	-	-	-	71,142
89	160	-	-	-	-	-	20,865
2,197	219	-	-	-	-	-	87,244
-	-	-	-	-	-	1	3,391
10,355	486	-	3,147	-	-	-	17,119
223,893	3,890	-	3,147	-	-	1	534,827

Table 23 - The sum of exposure after allowance for credit losses and after mitigation of credit risk[(b)] (Third Pillar):

	30 September 2016					
	0%	**20%**	**35%**	**40%**	**50%**	**75%**
	NIS millions					
Sovereign debts	**95,888**	**2,184**	**-**	**-**	**370**	**-**
Debts of public sector entities	**-**	**8,914**	**-**	**-**	**5,190**	**-**
Debts of banking corporations	**2,553**	**12,712**	**-**	**-**	**2,550**	**-**
Debts of securities companies	**-**	**888**	**-**	**-**	**-**	**-**
Debts of corporations	**-**	**2,127**	**-**	**-**	**1,529**	**-**
Debts collateralised by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**73,831**
Small business loans	**-**	**-**	**-**	**-**	**-**	**21,104**
Housing mortgages	**-**	**-**	**35,615**	**-**	**15,561**	**32,406**
Securitization	**-**	**2,365**	**-**	**90**	**-**	**-**
Other assets	**2,857**	**1**	**-**	**-**	**-**	**-**
Total	**101,298**	**29,191**	**35,615**	**90**	**25,200**	**127,341**

	30 September 2015					
	0%	20%	35%	40%	50%	75%
		NIS millions				
Sovereign debts	76,714	3,353	-	-	392	-
Debts of public sector entities	-	4,945	-	-	4,587	-
Debts of banking corporations	1,263	11,530	-	-	3,592	-
Debts of securities companies	-	986	-	-	-	-
Debts of corporations	-	1,165	-	-	1,839	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	73,686
Small business loans	-	-	-	-	-	20,248
Housing mortgages	-	-	36,821	-	13,296	28,916
Securitization	-	3,032	-	207	94	-
Other assets	2,583	-	-	-	-	-
Total	80,560	25,011	36,821	207	23,800	122,850

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure(a)
813	**-**	**-**	**-**	**-**	**-**	**-**	**99,255**
20	**1**	**-**	**-**	**-**	**-**	**-**	**14,125**
591	**25**	**-**	**-**	**-**	**-**	**-**	**18,431**
-	**-**	**-**	**-**	**-**	**-**	**-**	**888**
133,324	**2,387**	**-**	**-**	**-**	**-**	**-**	**139,367**
68,380	**558**	**-**	**-**	**-**	**-**	**-**	**68,938**
66	**270**	**-**	**-**	**-**	**-**	**-**	**74,167**
36	**197**	**-**	**-**	**-**	**-**	**-**	**21,337**
2,226	**182**	**-**	**-**	**-**	**-**	**-**	**85,990**
-	**-**	**-**	**-**	**-**	**-**	**736**	**3,191**
9,444	**473**	**-**	**4,264**	**-**	**-**	**-**	**17,039**
214,900	**4,093**	**-**	**4,264**	**-**	**-**	**736**	**542,728**

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure(a)
496	-	-	-	-	-	-	80,955
1	-	-	-	-	-	-	9,533
414	44	-	-	-	-	-	16,843
-	-	-	-	-	-	-	986
144,098	1,966	-	-	-	-	-	149,068
70,548	792	-	-	-	-	-	71,340
57	182	-	-	-	-	-	73,925
27	146	-	-	-	-	-	20,421
5,766	224	-	-	-	-	-	85,023
-	-	-	-	-	-	-	3,333
10,616	471	-	3,113	-	-	-	16,783
232,023	3,825	-	3,113	-	-	-	528,210

	31 December 2015					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	87,183	3,098	-	-	414	-
Debts of public sector entities	-	6,298	-	-	4,596	-
Debts of banking corporations	1,808	8,312	-	-	5,238	-
Debts of securities companies	-	1,021	-	-	-	-
Debts of corporations	-	1,357	-	-	1,732	-
commercial real estate	-	-	-	-	-	-
individuals	-	-	-	-	-	70,867
Small business loans	-	-	-	-	-	20,604
Housing mortgages	-	-	37,460	-	14,360	33,007
Securitization	-	3,161	-	178	51	-
Other assets	3,131	-	-	-	-	-
Total	92,122	23,247	37,460	178	26,391	124,478

(a) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk as a result of taking certain actions (for example, by using guarantees) and after offsetting derivative transactions (Netting).

(b) Mitigation of credit risk reflects the classification of the final risk weighting from among the various rates.

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[a]
482	-	-	-	-	-	-	91,177
1	-	-	-	-	-	-	10,895
481	34	-	-	-	-	-	15,873
-	-	-	-	-	-	-	1,021
138,965	1,975	-	-	-	-	-	144,029
70,449	732	-	-	-	-	-	71,181
41	196	-	-	-	-	-	71,104
23	160	-	-	-	-	-	20,787
2,192	219	-	-	-	-	-	87,238
-	-	-	-	-	-	1	3,391
10,355	486	-	3,147	-	-	-	17,119
222,989	3,802	-	3,147	-	-	1	533,815

Table 24 – The amount of exposure after credit loss expenses and after mitigation of credit risk[(b)] (Third Pillar)

	30 September 2016					
	0%	**20%**	**35%**	**40%**	**50%**	**75%**
	NIS millions					
Sovereign debts	**101,882**	**3,477**	**-**	**-**	**370**	**-**
Debts of public sector entities	**1,184**	**3,797**	**-**	**-**	**5,118**	**-**
Debts of banking corporations	**2,553**	**10,817**	**-**	**-**	**2,557**	**-**
Debts of securities companies	**-**	**767**	**-**	**-**	**-**	**-**
Debts of corporations	**-**	**20,754**	**-**	**-**	**5,508**	**-**
Debts collateralised by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**72,442**
Small business loans	**-**	**-**	**-**	**-**	**-**	**19,180**
Housing mortgages	**-**	**-**	**35,614**	**-**	**15,561**	**32,362**
Securitization	**-**	**2,366**	**-**	**90**	**-**	**-**
Other assets	**2,857**	**1**	**-**	**-**	**-**	**-**
Total	**108,476**	**41,979**	**35,614**	**90**	**29,114**	**123,984**

	30 September 2015					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	80,544	3,442	-	-	392	-
Debts of public sector entities	631	2,390	-	-	4,532	-
Debts of banking corporations	1,263	10,254	-	-	3,604	-
Debts of securities companies	-	767	-	-	-	-
Debts of corporations	-	1,130	-	-	1,839	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	71,824
Small business loans	-	-	-	-	-	17,972
Housing mortgages	-	-	36,817	-	13,295	28,873
Securitization	-	2,539	-	207	91	-
Other assets	2,583	-	-	-	-	-
Total	85,021	20,522	36,817	207	23,753	118,669

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[a]
473	**-**	**-**	**-**	**-**	**-**	**-**	**106,202**
20	**1**	**-**	**-**	**-**	**-**	**-**	**10,120**
591	**3**	**-**	**-**	**-**	**-**	**-**	**16,521**
-	**-**	**-**	**-**	**-**	**-**	**-**	**767**
100,794	**2,368**	**-**	**-**	**-**	**-**	**-**	**129,424**
67,682	**556**	**-**	**-**	**-**	**-**	**-**	**68,238**
59	**269**	**-**	**-**	**-**	**-**	**-**	**72,770**
106	**193**	**-**	**-**	**-**	**-**	**-**	**19,479**
2,225	**182**	**-**	**-**	**-**	**-**	**-**	**85,944**
-	**-**	**-**	**-**	**-**	**-**	**-**	**2,456**
9,444	**473**	**-**	**4,264**	**-**	**-**	**-**	**17,039**
181,394	**4,045**	**-**	**4,264**	**-**	**-**	**-**	**528,960**

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[a]
392	-	-	-	-	-	-	84,770
1	-	-	-	-	-	-	7,554
414	5	-	-	-	-	-	15,540
-	-	-	-	-	-	-	767
133,209	1,947	-	-	-	-	-	138,125
69,352	770	-	-	-	-	-	70,122
52	181	-	-	-	-	-	72,057
25	142	-	-	-	-	-	18,139
5,758	224	-	-	-	-	-	84,967
-	-	-	-	-	-	-	2,837
10,616	471	-	3,113	-	-	-	16,783
219,819	3,740	-	3,113	-	-	-	511,661

	31 December 2015					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	93,594	3,098	-	-	414	-
Debts of public sector entities	988	3,093	-	-	4,524	-
Debts of banking corporations	1,808	5,036	-	-	5,171	-
Debts of securities companies	-	864	-	-	-	-
Debts of corporations	-	1,357	-	-	1,732	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	69,156
Small business loans	-	-	-	-	-	18,381
Housing mortgages	-	-	37,458	-	14,360	32,973
Securitization	-	2,374	-	178	48	-
Other assets	3,131	-	-	-	-	-
Total	99,521	15,822	37,458	178	26,249	120,510

(a) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk as a result of taking certain actions (for example, by using guarantees) and after offsetting derivative transactions (Netting).

(b) Mitigation of credit risk reflects the classification of the final risk weighting from among the various rates.

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[a]
113	-	-	-	-	-	-	97,219
1	-	-	-	-	-	-	8,606
480	4	-	-	-	-	-	12,499
-	-	-	-	-	-	-	864
127,199	1,948	-	-	-	-	-	132,236
69,481	716	-	-	-	-	-	70,197
45	194	-	-	-	-	-	69,395
22	154	-	-	-	-	-	18,557
2,192	219	-	-	-	-	-	87,202
-	-	-	-	-	-	1	2,601
10,355	486	-	3,147	-	-	-	17,119
209,888	3,721	-	3,147	-	-	1	516,495

Credit risk mitigation - disclosures within the standard approach

For the purpose of credit risk mitigation using the standard approach, the Bank employs the comprehensive approach for dealing with collateral. The main collateral instruments which are recognized as eligible in the Bank according to the standard approach are:

NIS deposits, foreign currency deposits, savings plans, government bonds.

Collateral will be recognized as eligible when it meets the principles provided in Proper Conduct of Banking Business Directive No. 203, including legal certainty, the right to immediate realization in the event of a failure, and validity vis-à-vis a third party.

The Bank uses offset notes which meet the conditions stipulated in Proper Conduct of Banking Management Directive No. 203, in order to use the net exposure of loans and deposits as a basis for computing capital adequacy.

In addition, the Bank uses a **"netting set"** arrangement in accordance with Appendix C to Directive No. 203 in derivative transactions, when there are valid bilateral settlement agreements.

In order to mitigate credit risk in derivative transactions, the Bank enters into CSA agreements (offset and settlement in derivative agreements) and collateral transfer agreements with banks and customers

For the purpose of replacing the risk weighting of debts which are backed by a guarantee with the risk weighting of the provider of the hedging in calculating risk assets under the Standard Approach, the Bank recognizes mainly the following guarantees as eligible:

State guarantee, bank guarantee in Israel and Israel Foreign Trade Risks Insurance Corporation (ASHRA) guarantee.

The eligibility of the guarantee is determined according to compliance with the conditions of legal certainty and the operating requirements set forth in the Directive.

Table 25 - Credit risk mitigation (Third Pillar)

	30 September 2016					
	Gross credit exposure before allowance for credit losses[(a)]	Gross credit exposure after allowance for credit losses[(a)]	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral[(b)]	Net credit exposure[(c)]
	NIS millions					
Sovereign debts	**99,255**	**99,255**	**(415)**	**7,362**	**-**	**106,202**
Debts of public sector entities	**14,125**	**14,125**	**(5,186)**	**1,184**	**(3)**	**10,120**
Debts of banking corporations	**18,431**	**18,431**	**(1,389)**	**420**	**(941)**	**16,521**
Debts of securities companies	**888**	**888**	**-**	**-**	**(121)**	**767**
Debts of corporations	**139,908**	**139,367**	**(23,936)**	**22,796**	**(8,803)**	**129,424**
Debts collateralised by commercial real estate	**68,944**	**68,938**	**(66)**	**-**	**(634)**	**68,238**
Retail exposures to individuals	**74,191**	**74,167**	**(4)**	**-**	**(1,393)**	**72,770**
Small business loans	**21,402**	**21,337**	**(18)**	**-**	**(1,840)**	**19,479**
Housing mortgages	**86,178**	**85,990**	**(13)**	**-**	**(33)**	**85,944**
Securitization	**3,191**	**3,191**	**(735)**	**-**	**-**	**2,456**
Other assets	**17,039**	**17,039**	**-**	**-**	**-**	**17,039**
Total	**543,552**	**542,728**	**(31,762)**	**31,762**	**(13,768)**	**528,960**

	30 September 2015					
	Gross credit exposure before allowance for credit losses[(a)]	Gross credit exposure after allowance for credit losses[(a)]	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral[(b)]	Net credit exposure[(c)]
	NIS millions					
Sovereign debts	80,955	80,955	(104)	3,920	(1)	84,770
Debts of public sector entities	9,533	9,533	(2,607)	631	(3)	7,554
Debts of banking corporations	16,843	16,843	(1,221)	417	(499)	15,540
Debts of securities companies	986	986	-	-	(219)	767
Debts of corporations	150,095	149,068	(444)	-	(10,499)	138,125
Debts collateralised by commercial real estate	71,357	71,340	(75)	-	(1,143)	70,122
Retail exposures to individuals	73,964	73,925	(3)	-	(1,865)	72,057
Small business loans	20,492	20,421	(15)	-	(2,267)	18,139
Housing mortgages	85,030	85,023	(3)	-	(53)	84,967
Securitization	3,333	3,333	(496)	-	-	2,837
Other assets	16,783	16,783	-	-	-	16,783
Total	529,371	528,210	(4,968)	4,968	(16,549)	511,661

(a) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk as a result of taking certain actions (for example, by using guarantees) and after offsetting derivative transactions (Netting).
(b) After taking safety factors into account.
(c) Before conversion to credit of off-balance sheet components (for example, weighting of unutilized facilities), before mitigation of credit risk and after offsetting derivative transactions (Netting).

	31 December 2015					
	Gross credit exposure before allowance for credit losses[(a)]	Gross credit exposure after allowance for credit losses[(a)]	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral[(b)]	Net credit exposure[(c)]
	NIS millions					
Sovereign debts	91,177	91,177	(369)	6,411	-	97,219
Debts of public sector entities	10,895	10,895	(3,273)	989	(5)	8,606
Debts of banking corporations	15,873	15,873	(2,870)	391	(895)	12,499
Debts of securities companies	1,021	1,021	-	-	(157)	864
Debts of corporations	144,901	144,029	(404)	-	(11,389)	132,236
Debts collateralised by commercial real estate	71,199	71,181	(60)	-	(924)	70,197
Retail exposures to individuals	71,142	71,104	(4)	-	(1,705)	69,395
Small business loans	20,865	20,787	(17)	-	(2,213)	18,557
Housing mortgages	87,244	87,238	(4)	-	(32)	87,202
Securitization	3,391	3,391	(790)	-	-	2,601
Other assets	17,119	17,119	-	-	-	17,119
Total	534,827	533,815	(7,791)	7,791	(17,320)	516,495

General disclosure regarding exposures related to counterparty risk

Credit risk in derivatives is different from credit risk in loans due to the fact that changes in market prices can substantially increase the counterparty's debt.

In recent years, mechanisms have developed for mitigating credit risks in counterparty trading, anchored in international legal agreements (such as ISDA), accompanied by processes for offsetting mutual collaterals between the counterparties to the transaction (CSA agreements). Inter-banking trading activity is performed only with counterparties with whom the Bank has signed such agreements. In addition, there is a trend of contracting with highly activate customers, on a similar basis.

Table 26 - balances of credit risk of counterparties in derivatives (Third Pillar)

	30 September 2016		30 September 2015		31 December 2015	
	Balance of nominal value	Net credit exposures of derivatives	Balance of nominal value	Net credit exposures of derivatives	Balance of nominal value	Net credit exposures of derivatives
	NIS millions					
Interest contracts	**371,310**	**9,054**	342,678	11,179	320,844	8,587
Foreign currency contracts	**264,348**	**6,739**	294,177	8,801	249,151	7,064
Contracts for shares	**110,536**	**5,589**	105,231	5,624	100,923	5,169
Commoditries and other contracts	**572**	**78**	583	95	687	107
Credit derivative transactions[a]	**-**	**-**	-	-	-	-
Offsetting benefits	**-**	**(12,913)**	-	(13,968)	-	(12,274)
Eligible collateral	**-**	**(3,370)**	-	(3,025)	-	(3,450)
Total	**746,766**	**5,177**	742,669	8,706	671,605	5,203

(a) As of the date of report there are no credit risk exposures with regard to hedging sold or purchased.

Securitization

The Bank has no activity deriving from the securitization activity of the Bank.

However, the Bank invests in asset-backed securities through its nostro activity:

Asset-backed securities are characterized by a wide dispersion of borrowers and sometimes also by a sectoral and inter-sectoral dispersion. Additionally, in some instruments there is an allocation to layers of different risk levels, which allow the Bank flexibility in adapting the investment to the risk appetite.

Investments in various types of asset-backed securities are examined in advance both in terms of expected return and in terms of the inherent risks.

Banking Portfolio

Table 27 -investment in asset-backed securities by type of exposure (Third Pillar)

	30 September 2016		
	Overall balance of exposure	Resecuritization exposures to which credit risk mitigation was applied	Resecuritization exposures to which credit risk mitigation was not applied
	NIS millions		
Mortgage-backed securities (MBS):			
Pass-through type securities by means of:			
RMBS-type securities guaranteed by US Government GNMA	**254**	-	-
RMBS-type securities issued by FNMA and by FHLMC	**1,867**	-	-
Other securities	**819**	-	-
Other mortgage-backed securities:	-	-	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**4,694**	-	-
Other RMBS-type mortgage-backed securities	**283**	-	-
Other CMBS-type mortgage-backed securities	**223**	-	-
Total mortgage-backed securities (MBS)	**8,140**	-	-
Asset-backed securities (ABS)			
Credit card receivables	-	-	-
Lines of credit for any purpose secured by dwelling	-	-	-
Credit for purchase of vehicle	-	-	-
Other credit to private persons	**260**	-	-
Credit not to private persons	**1**	-	-
CLO-type debentures	**1,606**	-	**90**
Others	-	-	-
Total asset-backed (ABS)	**1,867**	-	**90**
Total asset-backed securities	**10,007**	-	**90**

	30 September 2015		
	Overall balance of exposure	Resecuritization exposures to which credit risk mitigation was applied	Resecuritization exposures to which credit risk mitigation was not applied
	NIS millions		
Mortgage-backed securities (MBS):			
Pass-through type securities by means of:			
RMBS-type securities guaranteed by US Government GNMA	13	-	-
RMBS-type securities issued by FNMA and by	1,036	-	-
Other securities	-	-	-
Other mortgage-backed securities:	-	-	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these	3,537	-	-
Other RMBS-type mortgage-backed securities	952	-	-
Other CMBS-type mortgage-backed securities	263	-	-
Total mortgage-backed securities (MBS)	5,801	-	-
Asset-backed securities (ABS)			
Credit card receivables	94	-	-
Lines of credit for any purpose secured by dwelli	-	-	-
Credit for purchase of vehicle	-	-	-
Other credit to private persons	4	-	-
Credit not to private persons	1	-	-
CLO-type debentures	2,018	-	207
Others	-	-	-
Total asset-backed (ABS)	2,117	-	207
Total asset-backed securities	7,918	-	207

	31 December 2015		
	Overall balance of exposure	Resecuritization exposures to which credit risk mitigation was applied	Resecuritization exposures to which credit risk mitigation was not applied
	NIS millions		
Mortgage-backed securities (MBS):			
Pass-through type securities by means of:			
RMBS-type securities guaranteed by US Government GNMA	11	-	-
RMBS-type securities issued by FNMA and by	1,224	-	-
Other securities	790	-	-
Other mortgage-backed securities:	-	-	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	4,940	-	-
Other RMBS-type mortgage-backed securities	232	-	-
Other CMBS-type mortgage-backed securities	271	-	-
Total mortgage-backed securities (MBS)	7,468	-	-
Asset-backed securities (ABS)			
Credit card receivables	92	-	-
Lines of credit for any purpose secured by dwelling	-	-	-
Credit for purchase of vehicle	-	-	-
Other credit to private persons	4	-	-
Credit not to private persons	1	-	-
CLO-type debentures	2,001	-	178
Others	-	-	-
Total asset-backed (ABS)	2,098	-	178
Total asset-backed securities	9,566	-	178

Banking portfolio

Table 28 - investments in asset-backed securities by risk weighting (Third Pillar) *:

	30 September 2016			
	Accumulated total exposure			Capital requirements in respect of securitization exposures
	Securitization exposures	Resecuritization exposures	Total	
	NIS millions			
20%	**2,365**	**-**	**2,365**	**59**
40%	**-**	**90**	**90**	**5**
50%	**-**	**-**	**-**	**-**
100%	**-**	**-**	**-**	**-**
225%	**-**	**-**	**-**	**-**
1250%	**736**	**-**	**736**	**1,153**
Total	**3,101**	**90**	**3,191**	**1,217**

	30 September 2015			
	Accumulated total exposure			Capital requirements in respect of securitization exposures
	Securitization exposures	Resecuritization exposures	Total	
	NIS millions			
20%	3,035	-	3,035	76
40%	-	207	207	10
50%	91	-	91	6
100%	-	-	-	-
225%	-	-	-	-
1250%	-	-	-	-
Total	3,126	207	3,333	92

	31 December 2015			
	Accumulated total exposure			Capital requirements in respect of securitization exposures
	Securitization exposures	Resecuritization exposures	Total	
	NIS millions			
20%	3,164	-	3,164	79
40%	-	178	178	9
50%	48	-	48	3
100%	-	-	-	-
225%	-	-	-	-
1250%	1	-	1	2
Total	3,213	178	3,391	93

* Not including FNMA, FHLMC securities whose risk weighting is 20%. Not including GNMA securities whose risk weighting is 0%.

Trading Portfolio

Table 29 - Investment in asset-backed securities by type of exposure (Third Pillar)

	30 September 2016
	Overall balance of exposure[(a)]
	NIS millions
Mortgage-backed securities (MBS):	
Pass-through type securities by means of:	
RMBS-type securities guaranteed by US Government GNMA	-
RMBS-type securities issued by FNMA and by FHLMC	**6**
Other securities	-
Other mortgage-backed securities:	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	-
Other RMBS-type mortgage-backed securities	**7**
Other CMBS-type mortgage-backed securities	**75**
Total mortgage-backed securities (MBS)	**88**
	-
Asset-backed securities (ABS)	-
Credit card receivables	**12**
Lines of credit for any purpose secured by dwelling	-
Credit for purchase of vehicle	**51**
Other credit to private persons	**12**
Credit not to private persons	-
CLO-type debentures	-
Others	**106**
Total asset-backed (ABS)	**181**
Total asset-backed securities	**269**

(a) As of 30 September 2016, there are no re-securitization positions in the trading portfolio.

	30 September 2015
	Overall balance of exposure[(a)]
	NIS millions
Mortgage-backed securities (MBS):	
Pass-through type securities by means of:	
RMBS-type securities guaranteed by US Government GNMA	-
RMBS-type securities issued by FNMA and by FHLMC	8
Other securities	-
Other mortgage-backed securities:	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	444
Other RMBS-type mortgage-backed securities	5
Other CMBS-type mortgage-backed securities	126
Total mortgage-backed securities (MBS)	583
Asset-backed securities (ABS)	
Credit card receivables	19
Lines of credit for any purpose secured by dwelling	1
Credit for purchase of vehicle	59
Other credit to private persons	14
Credit not to private persons	47
CLO-type debentures	-
Others	129
Total asset-backed (ABS)	269
Total asset-backed securities	852

(a) As of 30 June 2015, there are no re-securitization positions in the trading portfolio.

	31 December 2015
	Overall balance of exposure[(a)]
	NIS millions
Mortgage-backed securities (MBS):	
Pass-through type securities by means of:	
RMBS-type securities guaranteed by US Government GNMA	-
RMBS-type securities issued by FNMA and by FHLMC	8
Other securities	-
Other mortgage-backed securities:	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	408
Other RMBS-type mortgage-backed securities	5
Other CMBS-type mortgage-backed securities	88
Total mortgage-backed securities (MBS)	509
Asset-backed securities (ABS)	
Credit card receivables	12
Lines of credit for any purpose secured by dwelling	1
Credit for purchase of vehicle	67
Other credit to private persons	14
Credit not to private persons	-
CLO-type debentures	-
Others	148
Total asset-backed (ABS)	242
Total asset-backed securities	751

(a) As of 31 December 2015, there are no re-securitization positions in the trading portfolio.

Trading portfolio

Table 30 - Investments in asset-backed securities by risk weighting (Third Pillar) (*):

	30 September 2016	
	Accumulated total exposure	Capital requirements in respect of securitization exposures
	NIS millions	
20%	**150**	**4**
50%	**108**	**7**
100%	**1**	**0**
350%	**2**	**1**
1250%	**2**	**2**
Total	**263**	**14**

	30 September 2015	
	Accumulated total exposure	Capital requirements in respect of securitization exposures
	NIS millions	
20%	204	5
50%	192	12
100%	1	0
350%	2	1
1250%	1	2
Total	400	20

	31 December 2015	
	Accumulated total exposure	Capital requirements in respect of securitization exposures
	NIS millions	
20%	162	4
50%	168	11
100%	1	0
350%	2	1
1250%	2	3
Total	335	19

(*) Not including FNMA, FHLMC securities whose risk weighting is 20%. Not including GNMA securities whose risk weighting is 0%.

Market Risks

A market risk is defined as the risk of loss in balance sheet and off-balance sheet positions, caused by a change in the fair-value of a financial instrument, due to changes in market conditions (a change in price levels in various markets, volatility in interest rates, exchange rates, inflation, share prices and other economic indices). The exposure to market risks is expressed in the financial results, in assets and liabilities fair value, in the shareholders' equity and cash flows.

The Bank implements the directives of the Supervisor of Banks on the subject of market risks and the Group's liquidity, under which fundamental principles of risks management and control have been established, including the responsibility of the management and the Board of Directors, defining means of control and tools for measuring risks, means of control and supervision of these risks, while applying corporate governance comprising the three "lines of defense".

Market risk management policy

'Market risk management policy' is an expression of the Group's market risk strategy, this alongside the present procedures for identifying, measuring, following up, developing and controlling market risks. The policy is intended, on the one hand, to assist in meeting business goals while assessing the risks and opportunities that can derive from exposure to risks compared with the expected profit that they can generate, and on the other hand, intended to decrease the risk level deriving from the Bank's ongoing activity, including maintaining a high level of liquidity.

The policy constitutes an important tool for defining the Bank's risk appetite in the nostro area, trading rooms and market exposure in the entire Leumi Group. The policy defines the corporate governance, division of organizational responsibility and the escalation mechanisms.

The exposures to market risks are managed regularly at the Group level. The overseas subsidiaries determine market risks management policies in compliance with the Group policies and its approved risk frameworks. Information on the actual exposure status according to the determined frameworks is received from the subsidiaries and taken into account in the overall management of the Group's exposures.

Market risks management is performed in two risk centers – the banking portfolio and the trading portfolio. The definition of the trading portfolio is derived from Basel directives and includes the Bank's tradable securities portfolio and derivatives transactions in the tradable activity. The definition of the banking portfolio includes the transactions which are not included in the trading portfolio.

The Bank implements the US accounting principles for employee benefits, as set by the Bank of Israel. Managing the market risks concerning the commitments to employees is done partially in the framework of the banking portfolio, and its remaining part is done independently and separately as part of the "plan assets" management intended to yield a long term return, with the aim of servicing the liability value. The actuarial commitment to employees having a long term average duration is substantially influenced by changes in the discount rate. The effect of these changes on the Bank's capital is high. However, investment in "plan assets" is intended to service part of this liability, and is made by investing in diversified and dispersed assets such as shares and debt assets. The investment is subject to regulatory restrictions and restrictions set by the funds.

During the third quarter of 2016, there were no material changes in the organizational structure, the policy or the corporate governance of market risks management, as detailed in the Bank's 2015 Report on Risks.

Table 31 - Capital requirements in respect of market risk (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millions		
Capital requirements[(a)] in respect of:			
Interest rate risks	**532**	630	546
Share price risks	**35**	66	34
Exchange rate risk	**80**	108	56
Options	**15**	78	15
Total capital requirements in respect of market risks	**662**	882	651

(a) The capital requirements were calculated according to the minimal overall capital ratio as required by the Supervisor of Banks.

The capital requirements for exposure to market risks are presented in the above table, according to the standard approach, which reflects only part of the exposure to market risks.

Market risks to which the Bank is exposed

Base / Exchange Rate Risk

According to accounting principles, capital is defined as an unlinked shekel source, so that investing the capital in a sector which is not the unlinked shekel sector, is defined as base exposure. The exposure to base risks is measured as a percentage of the Group's exposed capital. The capital exposed at the Group level includes shareholders' equity and certain reserves, from which are deducted fixed assets and investments in companies included on equity basis.

Table 32 –The actual economic exposure at Group level, compared with restrictions set by the Board of Directors. The data is presented in terms of percentage of the exposed capital:

	Actual Status		
	30 September		31 December
	2016	2015	2015
	%		
Unlinked	**(18.1)**	(11.1)	(19.3)
Index-linked	**16.7**	12.5	19.5
Foreign Currency	**1.4**	(0.9)	(0.2)

* The exposure does not take into account the effect of index floors on the capital invested in the sector.

During the first nine months of 2016, the Group complied with all the base exposure limitations approved by the Board of Directors.

Table 33 - The sensitivity to changes in exchange rates of the main foreign currencies as of 30 September 2016. The measurement refers to the effect of the changes on the Bank's capital and includes the activity in balance sheet and off-balance sheet instruments:

	Dollar	Euro	Sterling	Swiss Franc	Yen
	NIS millions				
Increase of 5% in exchange rate	23.7	(2.4)	3.6	0.1	3.1
Increase of 10% in exchange rate	75.2	1.2	7.0	0.3	6.3
Decrease of 5% in exchange rate	(13.8)	13.8	(2.8)	0.0	(3.8)
Decrease of 10% in exchange rate	(10.0)	38.5	(4.7)	0.0	(8.1)

Shares

The Bank has defined Group policy for investment in shares including determining limits as to the overall scale of investment and in any single company, the investment mix, and various risk levels for types of real investments.

The main investment is in shares and is part of management of the real investment portfolio in the Group.

Nostro share investment activity is carried out by investment in indices or funds.

Table 34 - Book balance of investment shares in the banking portfolio (Third Pillar)

	30 September		31 December
	2016	2015	2015
	NIS millions		
Quoted shares in the available portfolio	**964**	1,309	1,050
Unquoted shares in the available portfolio	**1,137**	2,062	1,653
Total	**2,101**	3,371	2,703

Interest risk

Interest risk is the risk of loss as a result of changes in credit risk-free interest rates in various currencies, due to the gaps between dates of change in interest rate or the maturity of the assets and liabilities in each of the index sectors, whichever is earlier.

The interest exposure policy calls for limiting the rate of influence of possible changes in interest on the potential erosion of the economic value[1] and financial profit for the coming year. The profit exposure to interest is affected by activity in derivatives transactions and securities trading portfolio.

The interest risk is measured and managed based on different behavioral assumptions as to the maturity periods of the assets and liabilities. Based on past experience, the Bank considers part of the current accounts balance as long term liabilities. In addition, there are assumptions regarding early repayment of mortgages. These estimates are of high importance for managing interest risks, also due to the substantial increase in balances in recent years.

Measuring exposure to interest changes is performed for both increase and decrease in interest in each index sector. This measurement is designed to examine the sensitivity of the current assets and liabilities structure to interest changes, therefore the calculation is made without changing the assets and liabilities structure. If the interest rate is clearly negative, the assets and liabilities structure will have to change.

[1] The economic value of the capital is defined as the difference between the present value of the assets and liabilities**.** In calculating the present value, the cash flows of the non-risk credit return curve and the Libor foreign currency cash flows are deducted.

Table 35 - Summary of exposure to unexpected changes in interest rates at Group level (before tax and in NIS millions) * the potential change in economic value as a result of a scenario:

Scenario	**30 September 2016**			30 September 2015			31 December 2015		
	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%	Increase of 1%	Decrease of 1%	Change of 0.1%
In Israeli currency:									
Banking portfolio	**(122)**	**(97)**	**(2)**	(456)	449	(46)	(641)	708	(66)
Trading portfolio	**(106)**	**100**	**(10)**	(81)	86	(8)	(87)	111	(7)
In foreign currency:									
Banking portfolio	**(53)**	**(29)**	**(2)**	13	(109)	(28)	(32)	(74)	(3)
Trading portfolio	**(0)**	**(43)**	**1**	(60)	33	9	7	(33)	2

	Potential erosion in annual profit			
	30 September 2016**		30 September 2015	31 December 2015
	Israeli currency	Foreign currency		
Total	**343**	**178**	163	379

* The extent of exposure does not take into account the existence of an interest rate floor of 0% on the deposits. The further the interest falls and approximates to zero, the higher the impairment in financial margin – as all of the interest reduction by the Bank of Israel is reflected only in the lowering of the interest rate on the credit and therefore, in the reduction of margins and the erosion of profits in the Bank.

** Measurement according to limitations that were approved during September 2016.

Table 36 - The exposure of capital to an immediate increase/decrease in interest (before the effect of tax):

	Exposure in Israeli currency			Exposure in foreign currency		
	30 September 2016					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Decrease of 1%	Increase of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	**1,213**	**(1,629)**	**140**	**(457)**	**348**	**(43)**
	31 December 2015					
	Increase of 1%	Decrease of 1%	Change of 0.1%	Decrease of 1%	Increase of 1%	Change of 0.1%
Exposure of capital to an immediate increase/decrease in interest*	1,472	(1,895)	145	(292)	182	(25)

* This measurement includes the exposure to an immediate change in the interest of the nostro portfolios which have been re-measured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which at 30 September 2016 is estimated to be a decrease in the value of the assets amounting to NIS 120 million (NIS 120 million on 31 December 2015) in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects deriving from the provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

Upon implementation of the standard for employee rights and discounting of the actuarial commitment to employees per market interest rates, the Bank capital sensitivity to changes in interest has increased. This exposure is managed on an ongoing basis in the Bank's asset and liability management.

In this context, on 12 July 2016 the Bank received specific approval from the Bank of Israel regarding the method of calculating the discount rate which will be used to calculate the employees' rights' obligations to measure the regulatory capital, which also affects the method of calculating the interest exposures. Accordingly, during September, the Board of Directors approved restrictions on exposure to interest, which reflect the implications of implementing the standard and the changes in spreading the Bank's assets and liabilities.

Sensitivity of the fair value of assets and liabilities to interest

Below is the effect of potential changes in interest rates on the fair value of the Bank's and its consolidated companies' financial instruments, less non-monetary items, in accordance with accounting principles:

Table 37 - Net fair value of financial instruments, before the effect of changes in interest rates:

	30 September 2016					
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**265,372**	**51,873**	**69,579**	**9,443**	**9,369**	**405,636**
Amounts receivable in respect of derivative and off-balance sheet financial instruments	**252,994**	**7,105**	**228,704**	**58,479**	**43,736**	**591,018**
Financial liabilities[(a)]	**222,530**	**58,922**	**90,107**	**13,638**	**8,196**	**393,393**
Amounts payable in respect of derivative and off-balance sheet financial instruments	**274,966**	**8,753**	**208,751**	**54,477**	**45,419**	**592,366**
Net fair value of financial instruments	**20,870**	**(8,697)**	**(575)**	**(193)**	**(510)**	**10,895**

	30 September 2015					
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	243,583	53,083	62,555	8,816	9,314	377,351
Amounts receivable in respect of derivative and off-balance sheet financial instruments	317,886	7,550	248,057	74,384	29,386	677,263
Financial liabilities	204,791	45,679	82,346	14,277	8,185	355,278
Amounts payable in respect of derivative and off-balance sheet financial instruments	337,181	9,434	229,689	69,594	30,956	676,854
Net fair value of financial instruments	19,497	5,520	(1,423)	(671)	(441)	22,482

	31 December 2015					
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	257,444	52,070	64,294	7,598	9,709	391,115
derivative and off-balance sheet financial instruments	258,434	7,256	193,030	57,823	24,915	541,458
Financial liabilities[(a)]	211,447	59,362	87,666	13,889	9,199	381,563
Amounts payable in respect of derivative and off-balance sheet financial instruments	283,626	8,796	170,470	52,076	26,125	541,093
Net fair value of financial instruments	20,805	(8,832)	(812)	(544)	(700)	9,917

(a) Includes fair value of actuarial liabilities to employees and does not include the value of plan assets.

Table 38 - The effect of potential changes in interest rates on the net fair value[(a)] of financial instruments

	30 September 2016						
	Net fair value of financial instruments after effect of changes in interest rates(a)					Change in fair value	
	Israeli currency		Foreign currency including foreign-currency linked Israeli				
	Unlinked	CPI-linked	Dollar(b)	Euro	Others	Total	Total
	NIS millions					NIS millions	In %
Corresponding immediate increase of 1%	**20,257**	**(7,180)**	**(1,182)**	**(206)**	**(512)**	**282**	**2.59**
Corresponding immediate increase of 0.1%	**20,814**	**(8,524)**	**(632)**	**(194)**	**(511)**	**58**	**0.53**
Corresponding immediate decrease of 1%	**21,380**	**(10,701)**	**(78)**	**(180)**	**(508)**	**(982)**	**(9.01)**

	30 September 2015						
	Net fair value of financial instruments after effect of changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	In %
Corresponding immediate increase of 1%	18,435	4,995	(1,584)	(703)	(451)	(1,790)	(7.96)
Corresponding immediate increase of 0.1%	19,391	5,467	(1,439)	(674)	(442)	(179)	(0.80)
Corresponding immediate decrease of 1%	20,623	6,088	(1,376)	(636)	(428)	1,789	7.96

	31 December 2015						
	Net fair value of financial instruments after effect of changes in interest rates(a)					Change in fair value	
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency				
	Unlinked	CPI-linked	Dollar(b)	Euro	Others	Total	Total
	NIS millions					NIS millions	In %
Corresponding immediate increase of 1%	19,963	(7,086)	(1,079)	(550)	(692)	639	6.44
Corresponding immediate increase of 0.1%	20,721	(8,657)	(839)	(545)	(699)	64	0.65
Corresponding immediate decrease of 1%	21,643	(11,061)	(675)	(537)	(708)	(1,255)	(12.66)

(a) This measurement includes the exposure to immediate change in interest rate of Nostro portfolios revalued at market value and actuarial commitment to employees. This measurement does not include the effect of the sensitivity of the plan's assets to changes in interest which is estimated on September 30, 2016 as a decrease of some NIS 120 million in the value of assets (some NIS 120 million on December 31, 2015) in a scenario of 1% increase in interest. Also the measurement does not include the effects deriving from the provisions of the standard on employee rights, according to which the capital adequacy ratio is calculated.

(b) Of which the effect of complex financial assets: An immediate corresponding increase of 1% - NIS (276) million, (as at 31 December 2015 - NIS (179) million), an immediate corresponding decrease of 1% - NIS 69 million (as at 31 December 2015 –NIS 144 million).

* Not including estimated value of income from early repayment fees.

Table 39 - Exposure to interest rates

	30 September			31 December		
	2016			2015		
	Linked	Index	Foreign currency	Linked	Index	Foreign currency
Average duration in years:						
Average duration of assets[(a)]	**1.06**	**3.77**	**0.92**	1.06	3.26	1.05
Average duration of liabilities[(a)]	**1.00**	**2.84**	**0.79**	0.94	3.03	0.95
Average duration gap in years	**0.06**	**0.93**	**0.13**	0.12	0.23	0.10
IRR gap (%)	**1.95**	**0.99**	**0.08**	1.94	1.33	0.82

(a) Includes future transactions and options, and relying on the fair value data of financial instruments.

Calculating the average duration of liabilities in the index sector takes into account an estimate of early redemptions and withdrawals at saving plans exit points, according to the model for estimating early expected redemptions based on savers' behavior. The average duration of total liabilities according to the original saving plans cash flow is longer and reaches 2.93 years, and the internal rate of return gap ("IRR") amounts to 0.52%.

The presentation of the above mentioned data takes into account early redemption of mortgage loans. The average duration as of the end of the reporting period according to the original cash flow, which does not take into account early redemptions is higher and reaching 4.38 years, and the IRR gaps amounts to some 0.52%.

Included in the exposure to changes in interest rates, are the current account balances that pursuant to the directives of the Bank of Israel are shown under deposits on demand and up to one month. However, for purposes of interest rate exposure, a certain percentage of the current balances in shekels and in foreign currency are spread over repayment periods of up to ten years, in accordance with a behavioral model whose basic assumptions are updated on a current basis. Taking into account these assumptions, the average duration of the liabilities is higher and reached 1.21 years in unlinked shekels and 0.85 years in foreign currency, and the IRR gap amounts to 1.85% and 0.31% respectively.

Liquidity risk

Liquidity risk is the risk created due to uncertainty regarding the possibility to raise sources and/or realize assets, unexpectedly and in very short time, without incurring substantial loss.

In the Proper Conduct of Banking Business Directive No. 221 on the "Liquidity Coverage Ratio", the manner was determined of calculating the liquidity coverage ratio, which examines that in a horizon of 30 days in a stress scenario, a banking corporation has a sufficient inventory of high-quality liquid assets that can provide a response to the liquidity requirements of the corporation in this time horizon, in accordance with the combined scenario incorporated in the directive.

Pursuant to the transitional provisions, in 2016, the minimum requirement for compliance with the ratio was set at 80% and at 100% from 1 January 2017 and thereafter.

Table 40 - Liquidity coverage ratio (Third Pillar)

	For the three months ended 30 September 2016		For the three months ended 30 September 2015		For the three months ended 31 December 2015	
	Total unweighted value (average)[(a)(d)]	Total weighted value (average)[(b)(d)]	Total unweighted value (average)[(a)(d)]	Total weighted value (average)[(b)(d)]	Total unweighted value (average)[(a)(d)]	Total weighted value (average)[(b)(d)]
	NIS millions		NIS millions		NIS millions	
Total high-quality liquid assets	**(25)**	**105,302**	105,302	77,792	77,792	84,279
Cash outflows						
Retail deposits from individuals and small businesses of which:	**174,636**	**11,435**	158,171	11,000	161,800	11,239
Stable deposits	**46,621**	**2,331**	43,875	2,194	43,817	2,191
Less stable deposits	**61,146**	**7,098**	61,251	7,215	62,524	7,384
Deposits for a period in escess of 30 days (Section 84)	**66,869**	**2,006**	53,046	1,591	55,459	1,664
Unsecured wholesale financing, of which:	**125,099**	**80,072**	118,274	74,778	126,260	80,797
banking corporations	**-**	**-**	-	-	-	-
Non-operational deposts (all the counterparties)	**124,899**	**79,872**	118,055	74,559	125,888	80,425
Unsecured debts	**200**	**200**	219	219	372	372
Secured wholesale financing	**-**	**-**	-	-	-	-
Additional liquidity requirements, of which:	**81,760**	**18,849**	81,541	17,949	85,968	19,413
requirements	**13,532**	**13,532**	12,463	12,463	13,427	13,427
Cash flows in respect of loss of financing of debt products	**-**	**-**	-	-	-	-
Credit and liquidity facilities lines	**68,228**	**5,317**	69,078	5,485	72,541	5,986
Other contractual financing obligations	**6,680**	**6,680**	583	583	5,444	5,444
Other contingent financing obligations	**43,813**	**1,531**	23,853	1,417	43,300	1,460
Total cash outflows	**-**	**105,726**	-	105,726	-	105,726
Cash inflows						
Secured loans (for example resale transactions)	**1,241**	**-**	-	-	1,570	-
Cash inflows from exposures repaid in order	**40,370**	**26,832**	34,455	21,054	41,981	28,361
Other cash inflows	**17,018**	**11,006**	15,938	10,007	15,296	9,446
Total cash inflows	**58,629**	**37,838**	50,393	31,061	58,847	37,807
Total adjusted value[(c)]						
Total high-qualit liquid assets		**105,302**		77,792	-	84,279
Total net cash outflows		**80,729**		74,665	-	80,546
Liquidity coverage ratio		**130%**		104%	0%	105%

(a) Non-weighted values will be calculated as unpaid balances to be repaid or repayable by the holder within 30 days (for cash inflows and out flows).

(b) Weighted values will be calculated after the activation of appropriate safety factors or rates of inflow and outflow (for cash inflows and out flows).

(c) Adjusted values will be calculated after the activation of (1) safety factors or rates of inflow and outflow, and (2) any relevant restrictions (i.e. limits on high-quality liquid assets in Level 2 and Level 2 and a limit on cash inflows).

(d) Values are calculated based on weighted average observations throughout the quarter.

Table 41 - Composition of high quality liquid assets at 30 September 2016 at Group level in NIS millions:

	As at 30 September			30 September 2015			As at 31 December 2015		
	and foreign currency	**In foreign currency**	**In Israeli currency**	and foreign currency	In foreign currency	In Israeli currency	and foreign currency	In foreign currency	In Israeli currency
	Total weighted value			Total weighted value			Total weighted value		
Total Level 1 assets	**78,988**	**26,583**	**105,571**	64,078	17,641	81,719	71,723	22,792	94,515
Total Level 2a assets	**-**	**1,847**	**1,847**	-	2,373	2,373	-	3,020	3,020
Total Level 2b assets	**12**	**133**	**145**	97	246	343	3	88	91
Total high-quality liquid assets	**79,000**	**28,563**	**107,563**	64,175	20,260	84,435	71,726	25,900	97,626

Table 42 Composition of high quality liquid assets by average balances in the quarter in NIS millions:

	For the three months ended 30 September 2016			For the three months ended 30 September 2015			For the three months ended 31 December 2015		
	In Israeli and foreign currency	**In foreign currency**	**In Israeli currency**	In Israeli and foreign currency	In foreign currency	In Israeli currency	In Israeli and foreign currency	In foreign currency	In Israeli currency
	Total weighted value			Total weighted value			Total weighted value		
Total Level 1 assets	**76,987**	**25,899**	**102,886**	61,328	13,961	75,289	64,783	15,842	80,625
Total Level 2a assets	**-**	**2,234**	**2,234**	-	2,186	2,186	-	3,363	3,363
Total Level 2b assets	**75**	**107**	**182**	84	233	317	129	162	291
Total high-quality liquid assets	**77,062**	**28,240**	**105,302**	61,412	16,380	77,792	64,912	19,367	84,279

Financing Risk

The Bank manages over the years an extensive and diversified infrastructure of stable financing sources of different period ranges. The primary financing source of the Bank is deposits of retail customers. In addition, the Bank finances its activity by deposits of commercial and business customers and by issuing notes. The management of sources is made regularly and separately for Shekels and foreign currency.

The concentration of financing sources is managed and monitored by risk management indicators and models. The Bank performs a follow-up on the composition and concentration of sources under several categories. The ongoing managing of the composition of sources includes delineating policy for diversification of sources and financing periods. The centralization of the sources is controlled and managed within the framework of the liquidity risks management in the Bank. Ongoing daily measuring of the liquidity indices, minimal coverage ratio, follow-up on warning lights enable dynamic managing and follow-up on stable and diversified sources, control and supervision of the liquidity status and development of trends.

A detailed description of liquidity risk management and risk of financing is detailed in the Bank's risks report for 2015.

Table 43 - Pledged assets by balance sheet items (EDTF)

	30 September 2016			
	Pledged assets related to			
	Issue of bonds and notes	Clearinghouse activities and the Risk Fund	CSA agreements	Activity in derivative instruments
	NIS millions			
Cash and deposits in banks	**-**	**-**	**1,304**	**859**
Securities	**3,423**	**825**	**-**	**1,239**
Credit to the public	**-**	**69**	**790**	**-**

	30 September 2015			
	Pledged assets related to			
	Issue of bonds and notes	Clearinghouse activities and the Risk Fund	CSA agreements	Activity in derivative instruments
	NIS millions			
Cash and deposits in banks	-	-	155	1,945
Securities	880	1,384	-	-
Credit to the public	-	93	52	-

	31 December 2015			
	Pledged assets related to			
	Issue of bonds and notes	Clearinghouse activities and the Risk Fund	CSA agreements	Activity in derivative instruments
	NIS millions			
Cash and deposits in banks	-	-	450	400
Securities	796	998	-	1,333
Credit to the public	-	97	3	-

Operational risk

Operational risk is defined as risk of loss resulting from non-propriety or from failure of internal processes, people and systems, or as a result of external events including cyber events. This risk definition does not include strategic risk and good-will risk.

Operational risks include *inter alia* information security and cyber risks, information technology risks, embezzlement and fraud risks, legal risks, compliance risks and business continuity risks.

Management of operational risks in Leumi Group is founded on three lines of defense, similar to the other risks.

The Bank's operational risk policy

The Group's operational risks management policy is approved annually in the Board of Directors. The Group's policy constitutes a basis and work framework for risk management, and minimizing losses while considering risk tolerance and maintaining operational stability over time.

The policy adjusts to the nature, size and complexity of every organizational unit in the Group and delineates a process of identification, assessment, measuring, monitoring, reporting and control/mitigation of the substantial risks. A new substantial projects/products risk management methodology was set.

Operational risks survey – over a period of three years, an operational risks survey is conducted in all the Bank's units. In the framework of the survey a charting of the processes is conducted including their inherent risks in the business and operational processes, and required risks and controls and the recommendations to minimize the risks (amortization programs).

Since the operational risks are cross organization and activities, the Bank operates to establish a solid operational risks management culture including reporting on events and performing conclusions drawing, among the Group's employees and managers. As part of this, assimilation and instruction activities are performed through dedicated training sessions for managers and employees, integrating the subject in a variety of banking courses.

During the third quarter of 2016, there were no material changes in policy and the corporate governance of operational risk management, as detailed in the Bank's Report on Risks for 2015.

During the second quarter, the structure of the Operational, IT and Cyber Risks Subdivision was modified, in the Risk Management Division in order to adjust it to the accelerated changes in the business banking environment and in the operational technological environment, including the management of cyber and technology risks.

Operational streamlining

695 employees have signed retirement arrangements as part of the efficiency plan and they are expected to end their employment by 30 December 2016. Additionally, over the next five years, a further 640 employees are due to retire on pension by natural retirement.

The Bank is prepared for the retirement and is investing efforts in adapting the organizational structures, filling in gaps in critical areas, training and retaining know-how through a methodology and plan formulated on the subject. During the quarter, the efficiency plan detailed in the chapter as of the date of publication of the financial statements, 673 employees signed retirement arrangements in the framework of the efficiency plan, and they are expected to end their employment by 30 December 2016. Furthermore, during the next five years, about 685 additional employees are expected to reach retirement age.

As part of this, knowledgeable, professional and experienced employees are expected to retire, and as a result, there might be a risk of losing professional and organizational knowledge.

The Bank has made preparations for this retirement and invests its efforts in adapting organizational structures, filling gaps in critical professions, conducting training and knowledge retention by means of methodology and a plan formulated in the matter.

The multiple changes impact the operating environment and reflects the intensity of the operational risk.

Major risk areas

Information security and cyber risks

A cyber risk is defined as damage to a substantial property of the Bank by an attack through the cyber space, including information exposure (leak), information availability (lockout), reliability and completeness of the information (disruption).

The protection of the - information is executed in several levels: In information systems and mainly in data banks, in managing the permissions and providing access to systems by physical security measures and assimilation of the subject and raising the awareness among all the employees.

Technology risk

In recent years, significant changes occurred in the banking and operational environment, emanating *inter alia* from new demands of customers regarding their activity and from introducing advanced and innovative technologies.

The business activity of Leumi depends to a large extent on information systems. The availability of the systems, reliability of the data and protection of their confidentiality is crucial to proper business conduct and for maintaining customers' privacy.

In order to manage the aforesaid risks, a policy document was written and assimilated in the Bank defining the principles of technology risks management which includes the organizational form, areas of activity and the responsibility of the different entities in the Bank and work processes required for information technology risk management.

Compliance risks

Compliance, prohibition of money laundering and terror financing

The complexity and development of the banking activity requires the Bank to strictly comply with all duties applied to the banking corporation, relations with its customers, by virtue of primary legislation, bylaws, orders, permits and Bank of Israel's directives.

For effective management of the subject, a Compliance and Enforcement Department was established at Leumi headed by the Chief Compliance Officer reporting to the Chief Legal Counsel.

The Chief Compliance Officer is responsible for complying with the obligations according to the legislative provisions on the subject of prohibition of money laundering and the financing of terrorism**,** in charge of enforcement in the area of securities law and as Responsible Officer in the FATCA area, as will be described below.

Risk management governance is based on three lies of defense where the Compliance and Enforcement Department is included in the second defense line and its major role is responsibility for risk management and control, independent of the activities inspected by it, namely, the Department is a professional anchor leading and guiding the compliance risks management, acts to assimilate a proper compliance culture, determines guidelines (such as: risk assessment policy and methodology documents, cross organizational work procedures, assimilation materials, cross organizational automation requirements) to the Bank's and Group's activity and is responsible to expose substantial compliance risks to the Management and the Board of Directors.

The activity of the Compliance Department is performed by a professional team with a deep knowledge and understanding in the compliance area and is based on work processes, training, control and automated systems.

The multi-year work plan of the Compliance Department is a risk oriented plan, and its purpose is to examine the effectives of the compliance risk management.

The Chief Compliance Officer of Bank Leumi Le-Israel also acts as the Chief Compliance Officer of the Group. In view of the aforesaid, the compliance risks are managed independently by each of the companies in the Group, with supervision and professional guidance from a group perspective.

a. Internal enforcement of securities laws

The internal enforcement plan of securities laws formulated by the Bank is based on the Efficiency of Enforcement Procedures in the Securities Authority Law (Legislative Amendments), - 2011 and on criteria for recognition of an effective enforcement program published by the Securities Authority.

The plan has been approved by the Board of Directors, having been validated by an outside specialist who had reviewed the main enforcement procedures.

b. Foreign Account Tax Compliance Act – FATCA

In March 2010, the **Internal Revenue Code** in the United States was amended, so as to bring into effect a reporting regime, which aims to compel foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers.

In order to ensure the compliance of Leumi Group and individuals therein, with the provisions of the FATCA legislation, as adopted by the State of Israel in an inter-governmental agreement, and pursuant to a specific agreement between Leumi Group and the United States Department of Justice, the Bank is taking steps on a number of levels, the most important which are: the appointment of a compliance officer to assume the function of "responsible officer", the adoption of appropriate policy and work procedures, the development of automated tools supporting the working processes, the formulation of training and assimilation, inspection control and operation mechanisms which are required for complying with the directives and instructing the relevant subsidiaries in the Group.

Legal risks

There is a general exposure, which cannot be estimated or quantified, resulting from, inter alia, the complexity of the services provided by the Bank and its consolidated companies to their customers. The complexity of these services involves, among other things, a potential for interpretive and other claims, which relate to many commercial and regulatory conditions. It is not possible to anticipate all the kinds of claims raised in this field and the exposure relating to these and other claims in connection with the services of the Bank and its consolidated companies that are raised, inter alia, through the procedural mechanism stipulated in the Class Actions Law.

In addition, there is an exposure due to regulatory changes and guidelines of the Supervisor of Banks. Contracts with customers are, in part, engagements lasting for many years, during which changes may occur in policy, regulations and trends in the law, including court rulings. The Bank and its consolidated companies operate through complex automated systems, which in light of the aforesaid, have to be adjusted regularly. All these create increased operational and legal exposure.

Furthermore, there is a general exposure resulting from complaints against the Bank and its consolidated companies submitted from time to time to the Supervisor of Banks, which may in certain circumstance lead to legal action being taken against the Bank. At this time, it is impossible to assess whether there is an exposure for such complaints and it cannot be estimated if the Banking Supervision Department will make an across-the-board decision on complaints as above and / or if class actions or others will be filed as a result of such processes, and it is not possible to estimate the potential exposure as above. Accordingly, no provision is included for this exposure.

Evolving risks (EDTF)

Increase of regulatory requirements

This risk affects the business model, the profitability and the Group's capital adequacy requirements. The risk derives from directives by various regulators which can cause a change in the Group's business environment, including publishing the rules for obtaining a license in the payments sector, the memorandum to the law regarding credit associations, publishing the Strum Committee's conclusions etc.

The Bank follows the publications closely, studies them and prepares accordingly.

Risk in respect of the Remuneration Law for Officeholders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016

On 12 April 2016, the Remuneration Law for Officeholders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016 was published (henceforth: the "Remuneration Limitations Law"). The Law established restrictions on the remuneration of officeholders or other employees in financial corporations.

On 1 June 2016, the Association of Banks in Israel filed a petition with the High Court of Justice regarding the Remuneration Limitation Law. The petition requested a ruling that the provisions of the Law will not impair employees' rights for a pension and severance pay deriving from seniority accumulated prior to the enactment of the Law. Additionally, the petition requests canceling the clause which creates an effective salary limit and limits the salary of the highest paid employee in the organization to no more than 35 times the lowest salary.

On 29 September 2016 a ruling was given which denies the petition challenging the legality of the ratio restriction provision (ratio of 35). Also, the court extended the interim order as of 11 July 2016, stating that executive employees at corporations could give notice of resignation until 1 January 2017 and not lose their eligibility to receive all rights they would have earned in respect of employer-employee relations or termination of office, had those relations ended within the organizational period.

Regarding the rights arising from the accumulated seniority until the legislation, the court adopted an interpretative approach in principle, according to which the law was intended to apply for remunerations for future work only, and does not apply to rights acquired in return for work performed by the employee before the expiration of the organizational period (10 December 2016). On the basis of this principle, it should now be examined whether specific rights and interests of employees are subjected to the ratio restriction provision.

The High Court of Justice is minimizing the immediate risk of senior executives and mid-level managers leaving. That being said, the risk of leaving has not changed. The Bank is preparing to deal with the possible implications of the Law coming into effect, including examining the impacts on the Bank's long-term plans.

Macroeconomic Risk

A risk to the Group's income and capital, stemming from a number of factors which affect the markets, including the effects of the Britain's separation from the European Union (Brexit) and concerns regarding other countries leaving the Union, a global low interest rate environment, lower levels of economic growth compared with the past, China and the emerging markets, the Eurozone stability, geopolitical instability in countries around the world and specifically in the Middle East.

The Bank is examining the level of risk to the macroeconomic environment under systemic stress scenarios and following the market developments in order to adapt its activity as required.

The result of the referendum in the UK on leaving the European Union ("Brexit") does not entail at this stage any material effect on Leumi Group. The Bank continues to monitor the ramifications of the process while focusing on the relevant aspects of risk, including the activity of the UK subsidiary.

Apart from these risks, there were no significant changes in other evolving risks set out in greater detail in the Report on Risks for 2015, and so this section should be read in conjunction with that written in these reports.

Other risks

Reputational risk

The risk that publicity or public disclosure of a transaction or customer related practice, as well as business results and events connected to the Group, will negatively affect the public trust in the Group or cause a decrease in customer base or will result in high legal expenses or a decrease in income. The Group's goodwill risk is managed by diligent compliance with directives of the different regulators, maintaining high control levels and organized work procedures of the management and Board of Directors that guarantee their ability to follow-up the ongoing activity. Leumi has a behavioral code of ethics towards employees, vendors and the environment. Leumi Group is diligent in providing high quality products and services. The attitude towards employees and customers is reflected by a minimal number of complaints. In addition, there are detailed contingency plans to cope with goodwill events. Good will risk may influence the Bank whether to assume certain transactions while preferring to protect the Bank's goodwill over short range income. The Bank has functions that are engaged with the spokesperson function, investor relations and government relations whose task is to identify and minimize reputational risks.

Models risk

The risk caused if there is damage to the forecasting capability of models on which the Bank relies for its business activity or if they are not complete and not being updated and flexible to external events (such as a change in market conditions or new regulatory directives). The Bank has a models and functions validation policy that periodically examines the forecasting capability of the models which support the business activity. The primary models are discussed in the relevant committees.

Competition risk

The Group operates in a very competitive environment from both the banking system in Israel and from various financial entities such as insurance companies, banks abroad and so forth. This competition may hurt market share and Group's income in the various business lines. The Group defines courses of action to cope with this competition.

Remuneration

Remuneration Policy for Office Holders

On 3 November 2016, the general meeting of the Bank approved a new remuneration policy for office holders in the Bank which will come into effect as of 12 October 2019 (hereinafter: "the new remuneration policy"), this after the approval of the Board of Directors in accordance with the approvals and recommendations of the Remuneration Committee. The new remuneration policy is based on amended provision no. 20 to the Companies Law regarding terms of service and employment of office holders at the Bank, on the amended A301 Directive of the Proper Conduct of Banking Business regarding the remuneration policy in a banking corporation and on the provision of the Remuneration Law for Office Holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016 (hereinafter: "The Remuneration Limitation Law").

The scope of office holders' remuneration at the Bank was set in the new remuneration policy which includes, inter alia, a reference to the components of the fixed remuneration, which is the primary remuneration for office holder, which includes a fixed salary, social benefits and related salary terms and retirement and termination of employment terms (excluding retirement terms, which are classified as variable remuneration components), furthermore, to the variable remuneration components that include any non-fixed remuneration, including: an annual performance-based bonus; quality personal bonus; and a special bonus due to special events. As for the members of the Board and regarding the CEO of the bank, it was set that they will not be entitled to a variable yearly bonus.

The total sum of variable bonuses for office holders was restricted up to 7 monthly salaries per year and the Bank's Board of the directors has the authority to reduce the bonus contingent on performances at its discretion. Also, a variable bonuses clawback mechanism was set in the remuneration policy, in accordance with provision A301, including criteria for clawback, the circumstances of activating the mechanism and the clawback period.

Deferral payment arrangements of the variable bonus for office holders were set within the scope of the new remuneration policy.

Also, the remuneration policy includes provisions regarding the protection of rights upon retirement, including the pensions benefits of the Bank's office holders, which accumulated in respect to the end of the transitional period of the Remuneration Limitations Law.

For further information regarding the new remuneration policy, see the general meeting report published on 29 September 2016 (Ref: 2016-01-128920).

For information regarding the remuneration policy that was in effect until 12 October 2016, see the Bank's 2015 annual report.

The Remuneration Law for Office Holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016

On 12 April 2016, the Remuneration Law for Office Holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016, was published (henceforth: the "Remuneration Limitations Law"). The Law sets out limitations on remuneration for office holders or other employees in financial corporations (hereinafter: "the remuneration"), as follows:

- The method of approving remuneration was set, with an expected cost being estimated at more than NIS 2.5 million per year.
- No commitment will be allowed where the expected cost will exceed NIS 2.5 million per year, unless the ratio between the expected cost for full time position under this remuneration and the cost of the lowest remuneration, according to the cost of a full time position that the financial corporation paid directly or indirectly to an employee in the corporation, (including a contractor's employee), in the year previous to the date of the agreement, is less than 35.

- The sum of the remuneration of the same employee/office holder will be calculated on a group basis, i.e. it will also include remuneration from corporations connected by definition to this law.
- For the purpose of calculating the financial institution's taxable income, it is defined that an expense that exceeds the ceiling defined in the Law will not be allowed as a deductible expense. The ceiling defined in the Law is not more than NIS 2.5 million per year and if the remuneration exceeds NIS 2.5 million per year, the ceiling will be reduced by the difference between the remuneration and NIS 2.5 million (hereinafter: "the ceiling")
- Rules are defined for reporting to the tax authorities on details of remuneration that exceed the ceiling.
- A sanction is defined, according to which in a corporation that does not comply with the rules, the commitment will be regarded as invalid (in accordance with Section 280 of the Companies Law).

Regarding new commitments approved as of the date of publication of the Law and thereafter, the limitations on salary apply from the date of publication, whereas the effect on the taxable income of the corporation and reporting to the Israel Tax Authority apply as of 1 January 2017. Regarding commitments approved prior to the date of publication, the limitations on salary and the effect on the taxable income of the corporation and reporting to the Israel Tax Authority will apply as the end of six months from the date of publication.

On 7 April 2016, the Supervisor of Banks published a letter to the Chairpersons and CEOs of the banking corporations, according to which the banking corporations are required to estimate the possible impact and risks to the banks from the time the Law comes into effect, including an examination of the possibilities of leaving by key personnel, and examining the effects on the banks' long-term plans including the ability to undertake significant efficiency plans, in accordance with the Banking Supervision Department's requirements. In addition, the banking corporation were required to examine the necessity to revise the liabilities for employee rights in the Bank's financial statements, in light of changes in circumstances.

On 6 June 2016, the Supervisor of Banks published an additional letter to the Chairpersons and CEOs of the banking corporations on the subject of the banks' preparation for application of the law, in light of the concern which arose with some officeholders and executives in the banking corporations, that the law would be interpreted in a way which may cause considerable damage to the retirement rights which they accumulated for their years of service prior to the date of application of the law. According to the provisions of the letter, this concern may lead to high-level managers leaving some of the banking corporations, as well as dozens of mid-level managers at some of the banking corporations.

In the aforementioned letter, the Supervisor of Banks clarified that the Bank of Israel agrees with the position according to which the law should apply as of the date it comes into effect and not to the employees' past rights. Against this backdrop, the letter clarified that each banking corporation should take the steps required to avoid impairment to its proper governance. It should operate, inter alia, on the basis of established legal and accounting opinions, to adapt its employee remuneration terms in accordance with the law, and pursuant thereto, provide a solution to the banking corporation's liabilities towards the relevant employees for their past rights. According to the purpose of the law, this is while providing full disclosure to the relevant employees regarding the implications of the proposed outline, so that they can make a well-informed decision.

The coming into effect of the Law expected to impact, in a more limited way, certain employment terms of key officeholders at the Bank, who are employed under personal contracts. This anticipated impact of employment terms is expected to give officeholders and key professionals the right to give notice of terminating their position at the Bank while being entitled to termination conditions, as stated in their terms of employment at the Bank and grant them various rights, including increased severance pay or entitlement to early retirement, before reaching the legal retirement age. The Bank set a new remuneration policy for office holders in the Bank, which was approved by the Bank's shareholders in the special general meeting on 3 November 2016.

As detailed in Note 23.B.3.C of the Bank's financial statements for 2015 (page 279), the Bank made a provision for liabilities deriving from termination of employer-employee relations, in accordance with the estimate of probability of exposure to payment of the aforementioned sum, based on, inter alia, past experience and the expectation that most senior executives would continue their employment at the Bank until retirement age. Against the background of the enactment of the Salary Limitation Law, the Bank's management re-estimated the probability of exposure to payment of rights granted to officeholders and key professionals for the termination of employer-employee relations, under terms of dismissal, against the backdrop of the new legal circumstances created and based on various parameters examined.

Against the background of the increasing likelihood, and the changes in timing of terminations of service by members of management and additional executives who are employed under personal contracts, due to the expected worsening of their conditions when the law comes into effect; the limitations regarding prospects of promotion; and the rights they had already accumulated, the Bank's Board of Directors, in light of management's assessment and in accordance with legal opinions, approved updating the provision in respect of the termination of employee-employer relations, according to the rights accumulated, pursuant to the terms of employment of members of management and other managers who are employed under personal contracts.

In accordance with the abovementioned, the Bank increased the provision in the financial statements as at 31 March 2016 for the population of officeholders and key professionals by a sum of about NIS 117 million. Out of this amount, an amount of about NIS 36 million is for members of the management, including the President and Chief Executive Officer. According to accounting principles and the Public Reporting Directives, the aforementioned updated estimate was charged to other comprehensive income. As detailed in Note 1 of the financial statements for 2015 (Principle Accounting Policies, page 202) this amount shall be amortized during reporting periods subsequent to the statement of profit and loss

On 1 June 2016, the Association of Banks in Israel filed a petition with the High Court of Justice regarding the Remuneration Limitation Law. The petition requested a ruling that the provisions of the law will not impair employees' rights for a pension and severance pay deriving from seniority accumulated prior to the enactment of the law. Additionally, the petition requests canceling the clause which effectively creates an absolute salary limit and limits the salary of the highest paid employee in the organization to no more than 35 times the lowest salary.

On 29 September 2016 a ruling was given which denies the petition challenging the legality of the ratio restriction provision (ratio of 35). Also, the Court extended the interim order as of 11 July 2016, stating that executive employees at corporations can give notice of resignation until 1 January 2017, and not lose their eligibility to receive all the rights they are entitled to in respect of employer-employee relations or termination of office, had those relations ended within the period of reorganization.

Regarding the rights arising from seniority accumulated until the legislation, the Court adopted an interpretative approach in principle, according to which the law was intended to apply for remuneration for future work only, and does not apply to rights acquired in return for work performed by the employee before the expiration of the period of reorganization (12 October 2016). On the basis of this principle, it should now be examined whether specific rights and interests of employees are subject to the ratio restriction provision.