LEUMI

REPORT ON RISKS

31 March 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 only. In the event of any discrepancy, the Hebrew will prevail.

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Report on Risks

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

This report includes information accompanying 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, 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

18 May 2016

Purpose of the disclosure

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

The information included in 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 origin of the various disclosures, this report includes an index of the various disclosure tables, noting the origin of the disclosure as "EDTF" and "Third Pillar", respectively.

Principle of disclosure

With effect from the 2015 financial statements, the Bank has implemented the requirements for the reporting and disclosure included in the circular of the Banking Supervision Department regarding "Updating the structure of the report to the public of a banking corporation 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 connection with exposure to risks and the way they are managed.

The aim of the changes was to improve the quality of the reporting to the public by making the information in the report to the public more useful and accessible to the reader of the report, increase uniformity in the banking system in the way in which reports are presented to the public and devise a format for the annual report to the public based on presentation practices of leading banks in Europe and the United States. One of the key changes is the publication of the Report on Risks on the Internet website, to include detailed quantitative and qualitative information on the review of the risks and the way they are managed. This report is intended to provide information regarding exposure to risks and the way they are managed.

The report for 31 March 2016 is a summary report on risks, which is intended to reflect the changes that 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 determined by the Bank of Israel directives regarding quarterly reports of a banking corporation.

In view 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, regulatory risk and environmental risk.
- Qualitative information on significant changes that 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 implemented gradually and the report has been prepared according to the disclosure requirements provided in the directives of the Supervisor as follows:

- With regard to each quantitative figure included in the annual report on risks for the first time as a result of the new disclosure requirements – comparative data for the period and as of the corresponding interim period the previous year are not presented.
- With regard to quantitative figures included in previous disclosures within the framework of the Third Pillar disclosure requirements, comparative figures for corresponding periods are stated for the previous reporting period as required in the directives.
- The information is based partly on the Bank's financial statements which serve as a basis for calculating regulatory ratios, with the required adjustments and, in part, for the internal evaluations and models. In view of this, part of the information is an unaudited estimation and /or represents information that is forward looking information.
- Additional relevant information regarding exposure to certain risk 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

The Report on Risks includes, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1969, (hereinafter: "the Law") as "forward-looking information". Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

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", "aims", "likely to affect", "scenarios", "stress scenarios", "risk evaluation", "correlation", "distribution" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not a past fact.

Forward-looking information included in the Report on Risks is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the currency markets and the capital markets, to legislation, to directives of regulatory bodies, to the behavior of competitors, to technological developments and to personnel matters.

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

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

Summary of Disclosure Tables

The table summarizing the various disclosure requirements is as follows:

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Scope of Implementation (Third Pillar)

The scope of implementation relates to the method of implementation of the work program determined by the Basel committee for evaluation and capital adequacy and for additional requirements it determined for the leverage ratio, and ration for covering the liquidities in Leumi Group. Scope of the implementation of these directives is at a consolidated level and at the level of certain banking subsidiaries as detailed below:

- The capital requirements for the consolidated Group are calculated within the framework of Proper Conduct of Banking Business Directives which combine the directives of the Basel committee with certain adjustments and based on its consolidated financial reports and also at the level of banking subsidiaries. Calculation of the capital requirements is based on the financial reports prepared according to the accepted accounting rules (Israeli GAAP) and the Supervisor of Banks and his directives. According to the accepted accounting rules, banking subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial reports, while for the purpose of supervision of capital, there are various rules of consolidation applied, such as special treatment for reputation assets or other intangible assets and treatment of rights that do not grant control. Capital requirements of banking subsidiaries abroad are calculated according to the regulatory directives determined by the regulatory authority in the country in which they operate.
- In some of the subsidiaries abroad, not all the requirements relating to the leverage ratio/or liquidity requirement have been implemented, in view of this the framework of the Basel Committee's work is implemented at only the consolidated level.

Description of Leumi Group's businesses and their 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 and subsidiaries and companies included on equity basis, and through overseas branches and representative offices.

The Group's policy, in Israel and overseas, 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 to offer them a wide variety of products, adapted to their needs.

The business activity of the Bank 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 particular customer segment. In essence, the business activity specializes in providing financial services and various investment solutions to customers identified in 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. (deals with private customers of good financial standing). The activity is conducted through dedicated 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.

- **Business Banking** - provides financing and support to large companies and International companies including start - up and contracting companies involved in large real estate and infrastructure projects. Amongst others, the business and building and real estate divisions manage customers whose business activity is complex, their international business and/or their activity managed in a number of the Bank's overseas offices. Through the overseas offices, inter alia, are provided credit to local entrepreneurs operating in the fields of real estate, hotels, senior citizen nursing homes.

- **Capital Market Banking and Financial Management** handles management of the Bank's Nostro, management of all the Bank's trading rooms for the purpose of marketing activity, foreign currency trading and brokerage, interest, in derivatives and securities, in financial management including development of financial and investment products, in supplying sophisticated trading platforms to customers, in determining collateral requirements from customers active in the sectors, in management of assets and the Bank's liabilities – ALM and in 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 operating in the capital and financial markets, including institutional customers. Management od non-banking investment is mainly done through Leumi Partners.

Risk Management in Leumi and Principal 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 operating risks, including technological and cyber risks, legal risks, regulatory risks, goodwill 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 risk appetite which has been defined and retaining the existence of the proper management, control and reporting mechanisms.

In light of this, the Bank continually carries out activities to upgrade the risk management infrastructure and the analysis of the risk profile, which allows decisions to be made in an educated manner.

Table 1 - Summary of regulatory ratios and key financial data

	31 March		31 December
	2016	2015(a)	2016
	NIS millions		
Tier 1 shareholders' equity	**29,719**	27,416	29,001
Overall capital	**42,609**	40,745	41,594
Credit risk	**272,523**	271,585	277,034
Market risk	**5,793**	5,952	5,167
Operational risk	**20,100**	20,376	20,432
	Percentages		
Ratio of Tier 1 shareholders' equity to risk components (b)(c)	**9.96%**	9.20%	9.58%
Total overall capital to risk components	**14.28%**	13.68%	13.74%
Liquidity coverage ratio (b)(c)	**125%**		105%
Leverage ratio (d)	**6.35%**		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	**1.1**	0.9	1.1
Ratio of problem debts to the whole credit portfolio	**0.0**	0.0	0.0
Rate of balance of allowance for credit losses out of credit to the public, net	**0.0**	0.0	0.0
Return on equity	**0.1**	0.2	0.1

(a) Restated including changes pursuant to implementation of the directives of the Supervisor of Banks on capitalization of software costs.

(b) The required minimum ratio of Tier 1 shareholders' equity and required minimum of total capital from 1 January 2015 to 31 December 2016 is 1.9% - 12.5%., respectively, and beginning January 2017 is 10% and 13.5%, respectively. To these ratios beginning 1 January 2015 is added a capital requirement of 1% of the housing loan balance. This requirement is implemented in stages in equal quarterly rates beginning 1 April 2015 until 1 January 2017.
Accordingly the minimum ratio of Tier 1 shareholders' equity and the minimum ratio of total capital required by the Supervisor of Banks on 1 January 2017 according to the data on the date of the report is 10.27% and 13.77% respectively.

(c) Including implementation of the Supervisor of Bank's clarification regarding payroll tax.

(d) Pursuant to Bank of Israel directives, the leverage ratio and the liquidity coverage ratio were calculated from the second quarter of 2015. Accordingly, comparative figures are not stated for 31 March 2015. The liquidity coverage ratio is presented in terms of simple average 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 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 beginning 1 January 2018.

Capital (Third Pillar)

Capital Structure and Capital Adequacy (Third Pillar)

Regulatory capital structure

Since 1 January 2014, the Bank has implemented the Basel III directives for calculating capital adequacy as adopted in the Proper Conduct of Banking Business Directives No. 201-211 of the Supervisor of Banks. The implementation is gradual according to the transitional provisions of Proper Conduct of Banking Business Directive No. 299 of the Supervisor of the banks..

The regulatory capital is the basis for calculating the ratio between the eligible total regulatory capital and risk weighted assets. The regulatory capital index is based on the allocation of Tier 1 and Tier 2 equity.

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 made 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 and also the minority rights that are not eligible to be included in regulatory capital are deducted from the capital in stages at a rate of 20% beginning 1 January 2014 which increases every subsequent year at a rate of 20% until its completion by 1 January 2018. In view of everything said above, as of 2016 the rate of deductions from the regulatory capital stands at 60%.

Tier 1 shareholders' equity includes the capital attributable to the shareholders of the banking corporation, and the rights of external shareholders in the capital of consolidated subsidiaries after deducting the surplus capital in their respect. The regulatory adjustments and main deductions from Tier 1 shareholders' equity are intangible assets and goodwill, deferred taxes receivable whose realization is based on future profitability of the banking corporation, deferred taxes receivable net from timing differences, unrealized profits and losses resulting from changes in the fair value of liabilities deriving from changes in the own credit risk of the banking corporation, own investment in ordinary shares including a liability for own acquisition of shares subject to contractual agreements, and investments in the share capital of financial corporations not consolidated in the reports to the public of the banking corporation.

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.

Tier 2 capital includes capital instruments and the collective allowance for credit losses.

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, the transitional provisions and the cap for recognition which was computed to 1 January 2014, according to 80% of the balance of instruments as of 31 December 2013, were determined, and at the beginning of each successive year, this cap is lowered by 10% until 1 January 2022. For 2016, capital instruments and subordinated notes are recognized up to a cap of 60% of their balance in the regulatory capital as at 31 December 2013.

It should be noted that the amount actually recognized as Tier 2 capital is the lower of the amortized amount of the instruments themselves and their recognition cap according to the transitional provisions. From the beginning 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 capital. The main criteria are: the instrument must include: 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%; 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, and their repayment period shall not be less than five years; they are issued without collateral; their rights are subordinated to the claims of other creditors of the Bank except for creditors who hold Tier 1 capital; and the amount recognized as Tier 2 capital, as noted, will be reduced by 20% at the beginning of each of the last five years before their maturity.

Pursuant to the Shelf Proposal Report dated 20 January 2016, the Bank issued on 21 January 2016 an amount of NIS 926 million of Series 400 deferred 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 the required deductions from this capital.
- Capital instruments eligible for inclusion in Tier 2 capital shall not exceed 50% of Tier 1 capital required deductions from this capital. 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 out in Proper Conduct of Banking Business Directive No. 299 (Regulatory Capital - Transitional Provisions).

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

	31 March	31 December	31 December
	2016	2015(a)	2015
	NIS millions		
Data			
Capital for purposes of calculating capital ratio			
Tier 1 shareholders' equity, after regulatory adjustments and deductions	**29,719**	27,416	29,001
Tier 2 capital, after deductions	**12,890**	13,329	12,593
Total capital	**42,609**	40,745	41,594
Weighted balances of risk assets			
Credit risk	**272,523**	271,585	277,034
Market risk	**5,793**	5,952	5,167
Operational risk	**20,100**	20,376	20,432
Total weighted balances of risk assets	**298,416**	297,913	302,633
Ratio of capital to risk components			
Ratio of Tier 1 shareholders' equity to risk components	**9.96%**	9.20%	9.58%
Ratio of total capital to risk components	**14.28%**	13.68%	13.74%
Minimum Tier 1 shareholders' equity required by the Supervisor of Banks(c)	**9.14%**	9.00%	9.10%
Minimum overall capital ratio required by the Supervisor of Banks(c)	**12.64%**	12.50%	12.60%

(a) Restated including implementation of the directives of the Supervisor of Banks on capitalization of software costs.

(b) Includes implementation of the Supervisor of Banks' clarification regarding payroll tax.

(c) Minimum Tier 1 shareholders' equity and overall capital ratio required from 1 January 2015 to 31 December 2016 is 9% and 12.5%, respectively, and from 1 January 2017 is 10% and 13.5%, respectively. To these ratios there will be added from 1 January 2015 a capital requirement at a rate reflecting 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 overall capital 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.

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

	31 March		31 December
	2016	2015(a)	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 [(a)]	**9.53**	8.19	8.93
Effect of the transitional directives	**0.43**	1.01	0.65
Ratio of Tier 1 shareholders' equity to risk components	**9.96**	9.20	9.58

(a) Restated including implementation of the directives of the Supervisor of Banks on capitalization of software costs.
(b) Includes implementation of the Banking Supervision Department's clarification regarding payroll tax.

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

	31 March		31 December
	2016	2015(a)	2015
	NIS millions		
Tier 1 shareholders' equity			
Share capital	**7,108**	7,059	7,059
Premium	**1,716**	1,129	1,129
Retained earnings	**22,443**	20,344	21,984
Unrealized profits (losses) from fair value adjustments of securities available for sale	**165**	751	69
Adjustments from translation of financial statements of companies included on equity basis	**(49)**	53	7
Capital reserves in respect of share-based payment transactions and loans to employees for the purchase of the bank's shares	**-**	(42)	13
Other capital reserves	**(1,237)**	(1,069)	(600)
Non-controlling interests	**224**	256	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	**(651)**	(1,065)	(922)
Total Tier 1 shareholders' equity after deductions	**29,719**	27,416	29,001
Tier 2 capital			
Capital instruments eligible for inclusion under the transitional provisions in Directive 299	**9,652**	10,180	9,438
Non-controlling interests in subsidiaries under the transitional provisions in Directive 299	**19**	13	12
Collective allowance for credit losses before the relevant tax effect	**3,219**	3,136	3,143
Total Tier 2 capital	**12,890**	13,329	12,593
Total capital base for capital adequacy purposes	**42,609**	40,745	41,594

(a) Restated including implementation of the directives of the Supervisor of Banks on capitalization of software costs.
(b) Includes implementation of the Banking Supervision Department's clarification regarding payroll tax.

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

	31 March 2016 (b)		31 March 2015 (a)		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	**8,824**	**-**	8,188	-	8,188	-	1
Retained earnings, including dividend proposed or declared after the balance sheet date	**22,443**	**-**	20,344	-	21,984	-	2
Accumulated other comprehensive income and retained earnings that were disclosed	**(1,121)**	**(833)**	(309)	-	(511)	(894)	3
Tier 1 shareholders' equity instruments issued by the banking corporation for inclusion in regulatory capital in the transitional period	**-**	**-**	-	-	-	-	
Ordinary shares issued by subsidiaries of the banking corporation (minority interests) that were consolidated and were held by a third party	**224**	**77**	257	110	262	117	4
Tier 1 shareholders' equity before regulatory adjustments and deductions	**30,370**	**-**	28,480	-	29,923	-	-
Tier 1 shareholders' equity: regulatory adjustments and deductions							
Stability adjustments to appraisal	**-**	**-**	-	-	-	-	-
Goodwill	**273**	**-**	220	-	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	**2**	**1**	10	14	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	**-**	**-**	-	-	-	-	-

	31 March 2016 (b)		31 March 2015 (a)		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
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	**13**	**9**	12	18	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	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-

	31 March 2016 (b)		31 March 2015 (a)		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
Deferred taxes receivable created as a result of timing differences, whose total exceeds 10% of the Tier 1 shareholders' equity	**1,160**	**774**	822	1,234	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	-	-	-	-	-	-	-
investments in capital of financial corporations	-	-	-	-	-	-	-
Of which: in respect of mortgage servicing rights	-	-	-	-	-	-	-
Of which: additional regulatory adjustments to Tier 1 shareholders' equity	**(797)**	**(531)**	-	-	-	-	10
Regulatory adjustments in Tier 1 shareholders' equity that are subject to treatment required before adoption of Directive 202 pursuant to Basel III	-	-	-	-	-	-	-
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	**651**	-	1,064	-	922	-	-
Tier 1 shareholders' equity	**29,719**	-	27,416	-	29,001	-	-

	31 March 2016 (b)		31 March 2015 (a)		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
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	-	-	-	-	-	-	-
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 not included in the framework of Section 41.A (detail if material)	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-

	31 March 2016 (b)		31 March 2015 (a)		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
Additional Tier 1 capital	**-**	**-**	-	-	-	-	-
Tier 1 shareholders' equity	**29,719**	**-**	27,416	-	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	**925**	**-**	-	-	-	-	(א)11
Tier 2 capital instruments issued by the corporation that are eligible to be included in the regulatory capital in the transitional period	**8,727**	**-**	10,180	-	9,438	-	11
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third party investors	**19**	**-**	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	**19**	**-**	13	-	12	-	-
Collective allowances for credit losses by the relevant tax effect	**3,219**	**-**	3,136	-	3,143	-	12
Tier 2 capital before deductions	**12,890**	**-**	13,329	-	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	**-**	**-**	-	-	-	-	-
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	**-**	**-**	-	-	-	-	-

	31 March 2016 (b)		31 March 2015 (a)		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 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	**12,890**	-	13,329	-	12,593	-	-
Total capital	**42,609**	-	40,745	-	41,594	-	-
Total risk assets weighted in accordance with the treatment required before adoption of Directive 202 pursuant to Basel III	**775**	-	1,249	-	964	-	-
Of which: other deferred tax assets	**775**	-	1,249	-	964	-	13
Total weighted risk assets	**298,416**	-	297,913	-	302,633	-	-
Capital ratios and capital buffers							
Tier 1 shareholders' equity (as percentage of weighted risk assets)	**9.96%**		9.20%	-	9.58%	-	-
Tier 1 capital (as percentage of weighted risk assets)	**9.96%**		9.20%	-	9.58%	-	-
Overall capital (as percentage of weighted risk assets)	**14.28%**		13.68%	-	13.74%	-	-
Minimum Tier 1 shareholders' equity determined by the Supervisor of Banks	**9.14%**		9.00%	-	9.10%	-	-
determined by the Supervisor of Banks	**-**		-	-	-	-	-
Minimum overall capital determined by the Supervisor of Banks	**12.64%**		12.50%	-	12.60%	-	-

	31 March 2016 (b)		31 March 2015 (a)		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	**497**	-	44	-	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	**182**	-	163	-	183	-	15
Mortgage servicing rights	-	-	-	-	-	-	-
Deferred taxes receivable created as a result of timing differences that are below the deduction threshold	**3,008**	-	2,824	-	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	**3,219**	-	3,136	-	3,143	-	-
Ceiling for inclusion in Tier 2 under the Standardized Approach	**3,407**	-	3,395	-	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	-	-	-	-	-	-	-

	31 March 2016 (b)		31 March 2015 (a)		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
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	**-**	-	1,257	-	-	-	-

(a) Restated including implementation of the directives of the Supervisor of Banks on capitalization of software costs.
(b) Including implementation of the clarification by the Banking Supervision Department on payroll tax.

Table 5 - Composition of the regulatory balance sheet with references to components of regulatory capital (Third Pillar)

	31 March 2016	31 March 2015(a)	31 December 2014	Reference to regulatory capital components
	NIS millions			
Assets				
Cash and deposits in banks	**55,648**	51,769	60,455	-
Securities[1]	**78,727**	64,379	69,475	-
[1]Of which: investments in capital of financial corporations that do not				
exceed 10% of the share capital of the financ	**497**	44	663	**14**
[1]Of which: Other securities	**78,230**	64,335	68,812	-
Credit to the public	**267,705**	254,223	265,070	-
Allowance for credit losses[1]	**(3,572)**	(3,948)	(3,671)	-
[1]Of which: collective allowance for credit losses included in Tier 2	**(2,882)**	(2,792)	(2,805)	**12**
[1]Of which: allowance for credit losses not included in regulatory capital	**(690)**	(1,156)	(866)	-
Credit to the public, net	**264,133**	250,275	261,399	-
Credit to governments	**412**	433	453	-
Investments in companies included on equity basis[1]	**899**	896	924	-
[1]Of which: investments in capital of financial corporations that	**-**	-	#REF!	-
exceed 10% of the share capital of the financ	**182**	163	183	**15**
Goodwill[1]	**256**	202	255	**6**
Intangible asset[1]	**-**	-	-	**7**
Buildings and equipment	**3,060**	3,103	3,095	-
Other assets[1]	**7,890**	7,418	7,666	-
[1]Of which: deferred tax assets[2]	**4,945**	4,903	4,570	-
[2]Of which: deferred tax assets except for tho	**2**	10	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	**363**	822	640	**10**
[2]Of which: deferred taxes attributed to timing differences, whose total does not exceed 10% of the Tier 1 shareholders' equity	**3,008**	2,824	2,964	**16**
[2]Of which: other deferred tax assets pursuant to the transitional provisions	**1,571**	1,249	964	**13**
[1]Of which: additional other assets	**2,945**	2,515	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	**1,621**	2,197	1,764	-
Assets in respect of derivative instruments	**13,150**	18,831	11,250	-
Total assets	**425,557**	399,319	416,499	-

(a) Restated including the directives of the Supervisor of Banks on capitalization of software costs.
(b) Including implementation of the clarifications of the Banking Supervision Department on payroll tax.

	31 March 2016	31 March 2015(a)	31 December 2014	Reference to regulatory capital components
	NIS millions			
Liabilities and capital				
Deposits of the public	**330,354**	305,017	328,693	-
Deposits from banks	**4,441**	6,187	3,859	-
Deposit from governments	**808**	517	750	-
Debentures and subordinated notes[1]	**24,810**	19,596	21,308	-
[1]Of which subordinated notes not recognized as regulatory capital	**15,158**	9,415	11,870	-
[1]Of which subordinated notes recognized as regulatory capital[2]	**9,652**	10,181	9,438	-
[2]Of which: eligible as regulatory capital components	**926**	-	-	**11(א)**
[2]Of which: ineligible as regulatory capital components and subject to transitional provisions	**8,727**	10,181	9,438	**11**
Other liabilities	**20,650**	21,591	20,746	-
[1]Of which: collective allowance for credit losses included in Tier 2	**337**	344	338	**12**
Securities lent and sold under resell agreements	**845**	1,384	938	-
Liability in respect of derivative instruments[1]	**13,996**	18,086	11,098	-
[1]Of which; in respect of own credit risk	**-**	30	6	**9**
Total liabilities	**395,904**	372,378	387,392	-
Non-controlling interests[1]	**340**	329	340	-
[1]Of which: non-controlling interests that can be attributed to Tier 1 shareholders' equity	**224**	257	262	**4**
[1]Of which: non-controlling interests that can be attributed to Tier capital	**19**	13	12	**5**
Capital attributed to shareholders of the banking corporation[1]	**29,313**	26,612	28,767	-
[1]Of which: ordinary share capital	**7,108**	7,059	7,059	**1**
[1]Premium on ordinary shares	**1,716**	1,129	1,129	**1**
[1]Of which: retained earnings	**22,443**	20,344	21,984	**2**
[1]Of which: unrealized profits (losses) from adjustments of securities available for sale to fair value	**165**	751	69	**3**
[1]Of which: net losses from adjustments from translation of financial statements	**(49)**	53	7	**3**
[1]Of which: other reserves	**12**	(39)	9	**3**
[1]Of which: Profits (losses) from adjustments in respect of employee benefits included in regulatory capital	**(1,249)**	(1,074)	(596)	**3**
[1]Of which: Profits (losses) from adjustments in respect of employee benefits not included in regulatory capital	**(833)**	(1,611)	(894)	-
Total shareholders' equity	**29,653**	26,941	29,107	
Total liabilities and capital	**425,557**	399,319	416,499	

(a) Restated including the directives of the Supervisor of Banks on capitalization of software costs.
(b) Including implementation of the clarifications of the Banking Supervision Department on payroll tax.

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

	For the three months ended 31 March 2015	For the year ended 31 December 2015 (a)
	NIS millions	
Tier 1 shareholders' equity		
Balance at the beginning of the year	**29,001**	27,723
Issuance not for cash	**636**	-
Net profit for the period	**459**	2,782
Unrealized profits (losses) from adjustment of securities available for sale	**96**	(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	**(653)**	(596)
Other capital reserve	**(53)**	13
Minority interests	**(38)**	(40)
Deductions	**-**	-
Goodwill and intangible assets	**1**	(84)
Deferred taxes in respect of future profitability	**1**	2
Deferred taxes in respect of timing differences	**275**	(520)
Accumulated profits/losses resulting from changes in own credit risk on financial liabilities at fair value	**(6)**	(4)
Net increase in Tier 1 shareholders' equity	**718**	1,278
Balance at the end of the year	**29,719**	29,001
Tier 2 capital	**-**	-
Balance at the beginning of the year	**12,593**	14,684
Amortization of subordinated notes pursuant to the transitional provisions	**(712)**	(2,198)
Eligible subordinated notes	**926**	-
Minority interests	**7**	8
Expenses in respect of collective allowance	**76**	99
Net decrease in Tier 2 capital	**297**	(2,091)
Balance at the end of the year	**12,890**	12,593
Total overall capital at the end of the year	**42,609**	41,594

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

(b) The period of three months shows movement between the opening balance on 31 December 2014 and the closing balance on 31 March 2016

Capital adequacy

The capital adequacy ratios are calculated as the ratio of capital to risk weighted assets. The Tier 1 shareholders' equity ratio is calculated as the ratio of Tier 1 shareholders' equity to risk weighted assets and the overall capital ratio is calculated as the ratio of overall capital to risk weighted assets.

Capital adequacy targets prescribed 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% with effect from 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%, with effect from 1 January 2017. In addition, 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. Provisions regarding the above additional capital requirements apply 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". Pursuant to the amended directive, the banking corporation will be required to increase the Tier 1 shareholders' equity target and the overall capital target by a rate expressing 1% of the balance of housing loans. The date for commencing compliance with the capital target determined is 1 January 2017, and banking corporations are to increase the capital target in fixed quarterly percentages from 1 April 2015 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.

In light of the above, the minimum required capital target applicable to the Bank as of 31 March 2016 is:

Tier 1 shareholders' equity target – 9.14%

Overall capital target – 12.64%

Capital adequacy targets prescribed by the Bank:

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 that 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. In addition, targets have been defined that the Group wishes to meet in the event of a stress scenario.

As part of the regulatory review procedure, the Supervisor instructed the determination of internal capital targets which will suit the Bank's risk profile. Further thereto, the Board of Directors of the Bank approved an increase in the Bank's internal Tier 1 shareholders' equity such that from 31 December 2017, it will stand at 10.5%. The Board of Directors of the Bank will meet to discuss this target again no later than the end of 2016.

The accounting standard for employee rights implemented for the first time in January 2015, is a factor that impacts and is expected to impact, most significantly, 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 at historically low levels and due to high fluctuation that is inherent in this measurement. The Bank examines and implements a number of ways to moderate the volatility in equity arising from the standards - such as a purchase, directly or indirectly, of instruments that hedge the effect of changes in the market interest rates factors (wholly or partly) used to discount obligations for employee rights.

In addition, the expected overall decrease in equity due to write-downs of equity instruments attributed to Tier 2 capital issued prior to the entry into force of the directives for the implementation of Basel III, and lowering the ceiling of the amount recognized in equity of these capital instruments.

As of March 2016, the Tier 1 capital adequacy ratio of the Bank is 9.97%. The Bank is prepared to meet capital targets by 1 January 2017.

During the first quarter of 2016, a number of significant actions were completed in order to improve the capital adequacy ratio. Among them:

- **Converting employee rights into shares of the Bank**: On March 20, 2016 the Bank's Board of Directors approved the issuance of shares to employees and to 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 at March 6, 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 clause 102 of Income Tax Ordinance. The increase in capital derived from this conversion of rights improved by 0.26% the Bank's capital adequacy ratio of Tier 1 shareholders' equity.
- **Insurance for the guarantees' portfolio under the sales law**: On 8 March 2016, the Bank has entered into an agreement with high internationally-rated international re-insurers to purchase insurance for the portfolio of guarantees by virtue of the Sales Law (Apartments) and obligations to take out guarantees as aforesaid. The insurance policy protects the bank in respect of the event that it will be required to pay in the event of forfeiture of the guarantees, all in accordance with the conditions of the policy. 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 regulation No. 203 and contributed to an improvement of 0.23% in the capital adequacy ratio.
- **Deduction from 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 Banking Conduct of Banking Management 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 Management Regulation No.229 of the Banking Supervision Department. This amendment contributed a rate of 0.20% to the Bank's Tier 1 capital adequacy and a rate of 0.17% in the overall capital ratio.

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.

In this context, on February 28, 2016 Leumi signed an agreement with Harel for providing jointly housing loans secured by, among other things, mortgages and pledges of contractual rights regarding land. As of this date all the preconditions for the beginning of cooperation between the parties according to the agreement have not been fulfilled yet, that should be fulfilled not later than 90 days from signing the agreement, including also that there is no impediment as far as the Capital Markets, Insurance and Savings Authority is concerned to Harel's entering into the agreement.

Subject to completion of the preconditions, Harel will participate in providing mutual loans with the Bank, in which the ratio between the amount of loan and its property value (the LTV) is up to 60% and not above this rate (as long as Harel will not be granted a regulatory approval to participate in the loans at a higher financing rate), and the forecast of Harel's participation amounts in providing mutual housing loans with the Bank in the years 2016 and 2017 totals some NIS 4 billion.

It will be noted that from the end of the first quarter until soon after the publication of this report, there was an increase in the liabilities of employee rights which is derived from a decrease in the capitalization interest of employee rights, which was partially offset by the performance of the available for sale portfolio and the plan assets. Overall, based on preliminary internal estimates, the effect on capital adequacy ratio tier 1 as of this date is a decrease of 0.12% (considering the transitional directives).

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 March 2016 amounted to approximately NIS 298.4 billion. Each 1% increase in risk assets (NIS 3 billion) will reduce the capital adequacy Tier 1 shareholders' equity ratio by 0.10 % and the overall capital ratio by 0.14%.
- Accumulated profit or a change in the capital reserve – the Tier 1 shareholders' equity of Leumi at the end of March 2016 amounted to NIS 29.8 billion. Total overall capital amounted to NIS 42.7 billion. Any accumulation of net profit and/or positive movement in the capital reserve in the amount of NIS 1 billion, will improve Tier 1 shareholders' equity ratio and the overall capital ratio by 0.34%.
- Accounting standards regarding employee rights - according to this standard, the actuarial liability for employees discounted at 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. (Under the transitional

provisions, the effect is more moderate - only 60% of the effect in 2016 and an additional 20% in each subsequent year).

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:

Streamlining operations

On 12 January 2016, the Supervisor of Banks issued a letter entitled "Operational Streamlining of the Banking System." Pursuant to the letter, the boards of directors of banking corporations are to draft a multi-year outline plan to improve efficiency. A banking corporation that meets the conditions set in the letter will receive relief so that it can recognize the impact of the program over five years on a straight line basis for the calculation of capital adequacy.

The Bank is in the process of designing a multi-year streamlining plan.

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.

If the Israel Stock Exchange is recognized as an eligible counter party by mid-2017, the influence of the implementation of the directives on Leumi, on the basis of data at the end of 2015, will not be significant. If the Israel Stock Exchange is not recognized as an eligible counter party by mid-2017, the estimate of growth in the size of risk assets in the data for 2015 is NIS 3.5 billion, a decline of 0.11% in Tier 1 capital adequacy.

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)

	31 March				31 December	
	2016(e)		2015(d)		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	**972**	**123**	613	77	923	116
Debts of public sector entities	**2,773**	**351**	2,463	308	2,734	344
Debts of banking corporations	**3,212**	**406**	4,110	514	3,693	465
Debts of securities	**165**	**21**	247	31	173	22
Debts of corporations	**100,204**	**12,666**	108,300	13,538	106,737	13,449
Debts collateralised by commercial real estate	**51,412**	**6,498**	48,414	6,052	51,497	6,489
Retail exposures to individuals	**34,314**	**4,337**	31,176	3,897	33,421	4,211
Small business loans	**11,904**	**1,505**	10,859	1,357	11,567	1,457
Housing mortgages	**44,982**	**5,686**	42,921	5,365	45,119	5,685
Securitization	**559**	**71**	541	68	578	73
Other assets	**20,424**	**2,582**	19,437	2,430	18,952	2,388
Risk assets and capital requirements in respect of CVA risk	**1,597**	**202**	2,504	313	1,640	207
Total in respect of credit risk[a]	**272,518**	**34,448**	271,585	33,950	277,034	34,906
Risk assets and capital requirements in respect of market risk[a]	**5,793**	**732**	5,952	744	5,167	651
Risk assets and capital requirements in respect of operational risk[a]	**20,100**	**2,541**	20,376	2,547	20,432	2,574
Total risk assets and capital requirements[b][c]	**298,411**	**37,721**	297,913	37,241	302,633	38,131
Total overall capital	**42,655**		40,745		41,594	
Ratio of overall capital to risk components	**9.97%**		9.20%		9.58%	
Ratio of Tier 1 shareholders' equity to risk components	**14.29%**		13.68%		13.74%	
Ratio of minimum Tier 1 shareholders' equity required by the Supervisor of Banks[e]	**9.14%**		9.00%		9.10%	
Ratio of minimum overall capital required by the Supervisor of Banks[e]	**12.64%**		12.50%		12.60%	

(a) According to the minimum ratio required

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

(c) 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.

(d) Restated including the directives of the Supervisor of Banks regarding discounting software costs.

(e) Including implementation of the Banking Supervision Department's clarification on payroll tax.

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

	31 March		31 December	31 March		31 December
	2016	2015	2015	**2016**	2015	2015
	Tier 1 shareholders' equity ratio			Overall capital ratio		
	Percentages					
Leumi Consolidated	**9.96%**	9.20%	9.58%	**14.28%**	13.68%	13.74%
Arab Israel Bank[(a)]		11.59%	12.13%		12.67%	13.22%
Leumi Card	**16.75%**	16.14%	16.89%	**17.68%**	17.09%	17.82%
Bank Leumi USA[(b)]	**12.45%**	11.89%	12.33%	**15.21%**	14.58%	15.13%

(a) Including implementation of the Supervisor of Bank's clarification on payroll tax

(b) Arab Israel Bank was merged with Bank Leumi as at 31 December 2015.

(c) Capital requirements are in accordance with local regulation. Until 1 January 2015, the U.S. office was not required to calculate capital adequacy pursuant to Basel III, and accordingly, the ratios shown are in accordance with Basel I.

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. In addition, 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 reports 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 reports 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 adjust to the nature of the new supervisory presentation.

Balances of risk assets by operating segment

	31 March 2016							
	Households	Private banking	Small businesses	Commercial	Corporate	Financial management	Others	Total
	NIS milions							
Sovereign debts	**-**	**-**	**-**	**-**	**-**	**972**	**-**	**972**
Debts of public sector entities	**-**	**-**	**-**	**-**	**2,037**	**737**	**-**	**2,773**
Debts of banking corporations	**-**	**-**	**-**	**-**	**-**	**3,212**	**-**	**3,212**
Debts of securities companies	**-**	**-**	**-**	**-**	**-**	**165**	**-**	**165**
Debts of corporations	**-**	**-**	**-**	**31,708**	**48,803**	**19,694**	**-**	**100,204**
Debts collateralised by commercial real estate	**-**	**-**	**-**	**20,248**	**31,164**	**-**	**-**	**51,412**
Retail exposures to individuals	**32,091**	**2,224**	**-**	**-**	**-**	**-**	**-**	**34,314**
Small business loans	**3,918**	**272**	**1,079**	**2,613**	**4,022**	**-**	**-**	**11,904**
Housing mortgages	**42,066**	**2,915**	**-**	**-**	**-**	**-**	**-**	**44,982**
Securitization	**-**	**-**	**-**	**-**	**-**	**559**	**-**	**559**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**20,428**	**20,428**
CVA	**-**	**-**	**-**	**-**	**-**	**1,597**	**-**	**1,597**
Total credit risk	**78,075**	**5,411**	**1,079**	**54,569**	**86,026**	**26,935**	**20,428**	**272,523**
Market risk	**-**	**-**	**-**	**-**	**-**	**5,793**	**-**	**5,793**
Operational risk	**5,620**	**389**	**1,548**	**3,747**	**5,768**	**2,328**	**701**	**20,100**
Total risk assets	**83,695**	**5,800**	**2,627**	**58,317**	**91,794**	**35,055**	**21,129**	**298,416**

	31 December 2015(a)							
	Households	Private banking	Small businesses	Commercial	Corporate	Financial management	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	20,978	-	106,737
Debts collateralised by commercial real estate	-	-	-	20,281	31,215	-	-	51,496
Retail exposures to individuals	31,255	2,166	-	-	-	-	-	33,421
Small business loans	3,808	264	1,049	2,539	3,908	-	-	11,568
Housing mortgages	42,195	2,924	-	-	-	-	-	45,119
Securitization	-	-	-	-	-	578	-	578
Other assets	-	-	-	-	-	-	18,952	18,952
CVA	-	-	-	-	-	1,640	-	1,640
Total credit risk	77,258	5,354	1,049	56,595	89,120	28,706	18,952	277,034
Market risk	-	-	-	-	-	5,167	-	5,167
Operational risk	5,712	396	1,573	3,809	5,863	2,367	712	20,432
Total risk assets	82,970	5,750	2,622	60,404	94,983	36,240	19,664	302,633

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

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

Changes in credit risk assets

	For the three months ended 31 March 2016	For the year ended 31 December 2015
	NIS millions	
Opening balance	**277,034**	273,881
New transactions	**(1,775)**	6,030
Change in rating	**(224)**	(658)
Exchange rate differentials	**(1,101)**	(801)
Entry / exit from failure	**(159)**	220
Derivative transactions, net	**311**	(2,227)
Other	**(1,563)**	589
Closing balance	**272,523**	277,034

Changes in market risk assets

	For the three months ended 31 March 2016	For the year ended 31 December 2015
	NIS millions	
Opening balance	**5,167**	10,839
Interest risk - decrease in open positions	**291**	(3,175)
Foreign currency risk - reduction in open short positions in dollars	**277**	(1,154)
Shares risk - reduction in futures contracts and options on stock indices	**(195)**	(1,155)
Options risk - reduction in foreign currency option scenarios	**253**	(188)
Closing balance	**5,793**	5,167

Changes in operational risk assets

	For the three months ended 31 March 2016	For the year ended 31 December 2015
	NIS millions	
Opening balance	**20,432**	20,317
Changes	**(332)**	115
Closing balance	**20,100**	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 instruction from January 2014 to add a simple and non-risk based leverage ratio to act as a supplementary metric of risk-based capital requirements, and to limit the accumulation of leverage 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 that were set. 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 not less than 5% on consolidated basis. Also, a banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. This additional Directive applies to Leumi.

A banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined.

On the date of publication of the Directive, Leumi met the threshold required. The leverage ratio at 31 March 2016 is 6.36%.

Table 11 - Leverage ratio of the Bank on consolidated basis and principal subsidiaries according to Basel (Third Pillar)

	31 March	31 December
	2016	2015
	NIS millons	
A. Consolidated data		
Tier 1 shareholders' equity[(c)]	**29,719**	29,001
Total exposures	**467,663**	462,680
Leverage ratio	Percentages	
Leverage ratio	**6.36%**	6.27%
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**	6.00%
B. Significant subsidiary companies		
Arab Israel Bank[(a)]		
Leverage ratio		8.62%
Minimum leverage ratio required by the Supervisor of Banks		5.00%
Leumi Card Ltd.		
Leverage ratio	**11.52%**	11.66%
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**	5.00%
Bank Leumi USA[(b)]		
Leverage ratio	**10.31%**	9.98%

(a) Arab Israel Bank merged with Bank Leumi on 31 December, 2015.

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

(c) In March 2016 – including the implementation of the Banking Supervision Department's clarifications on salary tax.

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

	31 March	31 December
	2016	2015
	NIS millons	
Total assets in accordance with the consolidated financial statements	**425,557**	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	**(7,265)**	(4,266)
Securities financing transactions	**-**	-
Off-balance sheet items	**47,141**	48,564
Others	**2,231**	1,883
Exposure for purposes of leveraging ratio	**467,663**	462,680

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

	31 March 2016	31 December 2015
	NIS millons	
Balance sheet exposures		
Balance sheet assets (except for derivatives and securities financing transactions, but including collaterals)	**411,133**	404,044
Amounts in respect of assets deducted for purposes of determining Tier 1 shareholders' equity	**(651)**	(922)
Total exposures	**410,481**	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	**2,064**	1,671
Amounts of additions in respect of potential future exposure related to all the transactions in respect of derivatives	**5,215**	5,847
Deductions of assets of debtors in respect of variable cash-collateral given in transactions in derivatives	**(1,394)**	(533)
Total exposures	**5,885**	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	**2,045**	1,875
Exposures in respect of transactions as an agent	**2,112**	2,135
Total exposures	**4,156**	4,010
Other off-balance sheet exposures	**-**	-
Total off-balance sheet exposure at gross notional value	**129,139**	130,384
Of which: conversion coefficient 0%	**4,788**	4,763
conversion coefficient 10%	**26,772**	26,271
conversion coefficient 20%	**24,306**	22,697
conversion coefficient 50%	**67,340**	70,513
conversion coefficient 100%	**5,933**	6,141
(Adjustments in respect of conversion to equivalent credit amounts)	**(81,998)**	(81,821)
Total off-balance sheet after conversion to credit value	**47,141**	48,564
Capital and total exposures		-
Tier 1 shareholders' equity[(a)]	**29,719**	29,001
Total exposures	**467,663**	462,680
Leveraging ratio	**6.35**	6.27

In March 2016 - including the implementation of the Banking Supervision Department's clarifications on the subject of salary tax.

Risk exposure and its assessment

Risk management in Leumi

During the quarter there were no material changes in the organizational structure and in 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 current objectives and long-term goals of the Group. 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 area of risk management in Israel and abroad are examined and revised on an ongoing basis, taking into account the changes occurring in the business environment, and the requirements of the Bank of Israel, and other relevant regulatory authorities in Israel and abroad.

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

a. The risk appetite, which defines the boundaries for business activity, both on a routine basis, and under 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 evaluating risk, taking account of 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, the definition of general plans of action to be carried out to contend with /mitigate the risks.

The assessment of risk at the overall level of the Group and the level of the activity and single transaction is based on several structured methodologies, some based on expert assessments in each area of activity, and some, 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 management in the Bank, and Head of the Risk Management Division, is responsible for leading the management of the main risks in the Bank and in the Group, and the management of legal risks and compliance risks is under the authority of the Bank's Chief Legal Counsel and the management of reputational risk is under the responsibility of the Digital Banking Division.

Control and review of risk management are conducted by the management committees for the management of the various risks, as well as the Risk Management Committee of the Board of Directors. The committees discuss aspects of exposures to the various risks, outline policy documents, examination of risk profile and determine internal restrictions and control processes in accordance with the conditions of the market 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 policy, reflecting relevant changes as far as is required.

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

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 a 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, deposits in banks, investments in bonds, and equity holdings.

The Bank's policy in the credit area

The Bank implements an overall policy for managing 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 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 and credit risks policy document at Group level outlines the framework and supra-principles for the policy documents of the Bank and each of the subsidiaries in the Group in Israel and abroad. In addition, this document includes the limitations in the area of credit which are defined and managed at Group level.

The Bank's credit and credit risk policy document constitutes a principal 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 risk policy and the 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 first 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.

Credit concentration

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.

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 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:

	For the three months ended 31 March 2016	For the three months ended 31 March 2015	For the year ended 31 December 2015		
	NIS millions				
				Change	Percentages
Balance sheet credit risk	**50,809**	48,843	50,631	1,966	4.03
Guarantees to apartment purchasers(a)	**8,504**	8,163	8,379	341	-
Other off-balance sheet credit risk	**28,022**	28,424	29,298	(402)	(1.42)
Total	**87,335**	85,430	88,308	(973)	2.23

(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 regular reporting to the Bank of Israel, for internal monitoring, and for examination of compliance of the scope of obligation with the regulatory limitations.

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 force. The main update of 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 stricter on granting credit to a single borrower and a group of borrowers.

[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 Bank complies with the updated limitation as of 31 March 2016, and is prepared to comply with all the gradual milestones of the transitional directives until December 31, 2018.

Single Borrower and Group of Borrowers Limitations

1. As of 31 March 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 of 31 March 2016, the Group had 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 is 120% of the Bank's capital.

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

	31 March				31 December	
	2016[(h)]		2015[(g)]		2015	
	Gross credit risk exposure[(b)]	Average gross credit risk exposure[(d)]	Gross credit risk exposure[(b)]	Average gross credit risk exposure[(d)]	Gross credit risk exposure[(d)]	Average gross credit risk exposure[(d)]
Type of credit exposure:						
Credit[(c)]	**320,210**	**321,364**	303,547	309,118	322,511	311,348
Bonds[(d)]	**67,530**	**61,770**	50,003	43,613	56,013	49,471
Others[(e)]	**16,885**	**17,002**	17,099	17,147	17,119	17,101
Guarantees and liabilities on account of customers	**129,275**	**129,903**	134,808	133,313	130,531	133,589
Derivatives[(f)]	**8,346**	**8,499**	11,841	11,447	8,653	10,864
Total	**542,246**	**538,538**	517,298	514,638	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).
(g) Restated including implementing the Supervisor of Banks' directive regarding discounting software costs.
(h) Including implementation of the Banking Supervision Department's clarification on the subject of salary tax.

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

	31 March 2016					
	Credit[(e)]	Bonds[(f)]	Others[(g)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(h)]	Total[(d)]
	NIS millions					
Sovereign debts	**47,632**	**49,987**	**-**	**541**	**27**	**98,187**
Debts of public sector entities	**3,784**	**8,277**	**-**	**963**	**163**	**13,187**
Debts of banking corporations	**6,095**	**3,119**	**-**	**4,334**	**3,020**	**16,568**
Debts of securities companies	**28**	**454**	**-**	**-**	**441**	**923**
Debts of corporations	**88,438**	**2,447**	**-**	**45,986**	**4,658**	**141,529**
Debts collateralised by commercial real estate	**33,896**	**-**	**-**	**36,867**	**-**	**70,763**
Retail exposures to individuals	**42,726**	**-**	**-**	**29,569**	**34**	**72,329**
Small business loans	**16,486**	**-**	**-**	**4,783**	**3**	**21,272**
Housing mortgages	**81,125**	**-**	**-**	**6,232**	**-**	**87,357**
Securitization	**-**	**3,246**	**-**	**-**	**-**	**3,246**
Other assets	**-**	**-**	**16,876**	**-**	**-**	**16,876**
Total in respect of credit risk	**320,210**	**67,530**	**16,876**	**129,275**	**8,346**	**542,237**

	31 March 2015[(g)]					
	Credit[(e)]	Bonds[(f)]	Others[(g)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(h)]	Total[(d)]
	NIS millions					
Sovereign debts	43,341	34,255	-	237	34	77,867
Debts of public sector entities	3,692	5,252	-	130	34	9,108
Debts of banking corporations	6,908	5,002	-	2,473	3,972	18,355
Debts of securities companies	368	604	-	-	874	1,846
Debts of corporations	87,772	2,143	-	51,087	6,838	147,840
Debts collateralised by commercial real estate	31,324	-	-	36,498	-	67,822
Retail exposures to individuals	39,026	-	-	32,238	83	71,347
Small business loans	15,338	-	-	4,568	6	19,912
Housing mortgages	75,778	-	-	7,577	-	83,355
Securitization	-	2,747	-	-	-	2,747
Other assets	-	-	17,099	-	-	17,099
Total in respect of credit risk	303,547	50,003	17,099	134,808	11,841	517,298

(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).

(g) Restated including implementing the Supervisor of Banks' directive regarding discounting software costs.

	31 December 2015					
	Credit[e]	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.

a) 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)

31 March 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	**141,757**	**33,339**	**4,376**	**76,342**	**5,460**	**261,265**
From 1 to 5 years	**80,448**	**11,191**	**1,091**	**33,233**	**6,220**	**132,183**
Above 5 years	**97,531**	**23,000**	**4,530**	**19,700**	**5,483**	**150,244**
Non-monetary items	**474**	**-**	**6,888**	**-**	**5,219**	**12,581**
Benefits for offsetting	**-**	**-**	**-**	**-**	**(14,036)**	**(14,036)**
Total	**320,210**	**67,530**	**16,885**	**129,275**	**8,346**	**542,237**

31 March 2015[(g)]

	Credit[(C)]	Bonds[(d)]	Others[(e)]	Guarantees and other liabilities	Transactions in derivative financial instruments[(f)]	Total[(b)]
	NIS millions					
Up to 1 year	138,756	32,343	5,337	88,583	9,274	274,293
From 1 to 5 years	74,157	6,900	(270)	30,758	6,991	118,536
Above 5 years	90,248	10,760	3,334	15,467	8,039	127,848
Non-monetary items	386	-	8,698	-	5,195	14,279
Benefits for offsetting	-	-	-	-	(17,658)	(17,658)
Total	303,547	50,003	17,099	134,808	11,841	517,298

31 December 2015[(g)]

	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).

(g) Restated including changes due to a change in the accounting system for accrual of employee rights and implementing the Supervisor of Banks' directive regarding discounting software costs.

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

	31 March 2016									
	Overall credit risk(a)			Debts(b) and off-balance sheet credit risk (excluding derivatives)(c)						
								Credit losses(d)		
					1Of which:					
	Total	Credit performance rating(f)	Problematic(e)	1Total	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	**2,112**	**1,978**	**134**	**2,109**	**1,813**	**134**	**50**	**15**	**3**	**(51)**
Mining and quarrying	**687**	**679**	**8**	**573**	**400**	**8**	**-**	**-**	**-**	**-**
Industry	**24,143**	**22,687**	**1,456**	**23,750**	**15,691**	**1,458**	**524**	**(9)**	**(23)**	**(531)**
Construction & real-estate - construction(g)	**46,533**	**44,790**	**1,743**	**46,431**	**16,032**	**1,743**	**331**	**5**	**-**	**(353)**
estate - real-estate activity	**28,378**	**26,775**	**1,603**	**28,307**	**25,179**	**1,603**	**869**	**(147)**	**(15)**	**(476)**
Electricity & water	**5,500**	**5,082**	**418**	**5,160**	**3,505**	**418**	**283**	**22**	**-**	**(62)**
Commerce(h)	**28,237**	**27,304**	**933**	**28,022**	**22,833**	**895**	**230**	**(2)**	**1**	**(294)**
Hotels, accomodation and food services	**3,070**	**2,891**	**179**	**3,029**	**2,681**	**179**	**133**	**(56)**	**(58)**	**(30)**
Transport and storage	**7,327**	**7,015**	**312**	**7,217**	**6,011**	**312**	**263**	**3**	**2**	**(37)**
Communications & computer services	**6,244**	**5,990**	**254**	**5,916**	**4,191**	**250**	**244**	**(5)**	**(3)**	**(57)**
Financial services	**21,216**	**21,154**	**62**	**15,777**	**10,635**	**62**	**48**	**(42)**	**(13)**	**(274)**
Business & other services	**7,886**	**7,771**	**115**	**7,852**	**5,456**	**115**	**61**	**15**	**7**	**(101)**
Public & community services	**7,936**	**7,898**	**38**	**7,910**	**6,600**	**38**	**12**	**5**	**3**	**(45)**
Total commercial	**189,269**	**182,014**	**7,255**	**182,053**	**121,027**	**7,215**	**3,048**	**(196)**	**(96)**	**(2,311)**
Private individuals - housing loans	**82,895**	**82,148**	**747**	**82,895**	**80,354**	**747**	**-**	**(2)**	**1**	**(495)**
Private individuals - other	**66,442**	**65,971**	**471**	**66,433**	**37,096**	**471**	**143**	**99**	**52**	**(749)**
Total public - activity in Israel	**338,606**	**330,133**	**8,473**	**331,381**	**238,477**	**8,433**	**3,191**	**(99)**	**(43)**	**(3,555)**
Banks in Israel	**6,849**	**6,849**	**-**	**2,445**	**2,354**	**-**	**-**	**(1)**	**-**	**(2)**
Government of Israel	**43,914**	**43,914**	**-**	**196**	**196**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**389,369**	**380,896**	**8,473**	**334,022**	**241,027**	**8,433**	**3,191**	**(100)**	**(43)**	**(3,557)**

(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 241,023, 42,972, 1,621, 5,570, 98,182 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 1,032 million, which were extended to purchasing groups in the process of construction.

	31 March 2016[a]									
	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	**61**	**60**	**1**	**61**	**53**	**1**	**1**	**(1)**	**-**	**(2)**
Mining and quarrying	**38**	**38**	**-**	**36**	**29**	**-**	**-**	**-**	**-**	**-**
Industry	**8,519**	**8,292**	**227**	**7,098**	**4,719**	**227**	**59**	**(26)**	**10**	**(53)**
Construction & real-estate[g]	**12,424**	**11,881**	**543**	**12,039**	**9,203**	**543**	**378**	**(8)**	**(3)**	**(215)**
Electricity & water	**312**	**312**	**-**	**78**	**47**	**-**	**-**	**-**	**-**	**-**
Commerce[h]	**7,481**	**7,413**	**68**	**7,366**	**4,890**	**68**	**68**	**7**	**1**	**(87)**
Hotels, accomodation and food services	**1,476**	**1,448**	**28**	**1,476**	**1,392**	**28**	**21**	**-**	**-**	**(10)**
Transport and storage	**242**	**178**	**64**	**225**	**199**	**64**	**64**	**6**	**19**	**(16)**
Communications &computer services	**2,343**	**2,343**	**-**	**2,031**	**799**	**-**	**-**	**-**	**-**	**(1)**
Financial services	**17,360**	**17,271**	**89**	**2,491**	**1,631**	**89**	**89**	**(6)**	**(1)**	**(46)**
Business & other services	**5,440**	**5,391**	**49**	**5,353**	**4,522**	**49**	**2**	**5**	**-**	**(19)**
Public & community services	**478**	**471**	**7**	**467**	**356**	**7**	**-**	**-**	**-**	**(18)**
Total commercial	**56,174**	**55,098**	**1,076**	**38,721**	**27,840**	**1,076**	**682**	**(23)**	**26**	**(467)**
Private individuals - housing loans	**1,130**	**1,081**	**49**	**1,131**	**1,126**	**48**	**45**	**-**	**1**	**(15)**
Private individuals - other	**426**	**397**	**29**	**415**	**262**	**29**	**28**	**-**	**-**	**(6)**
Total public - activity abroad	**57,730**	**56,576**	**1,154**	**40,267**	**29,228**	**1,153**	**755**	**(23)**	**27**	**(488)**
Banks abroad	**23,318**	**23,318**	**-**	**10,609**	**8,969**	**-**	**-**	**-**	**-**	**-**
Governments abroad	**15,052**	**15,052**	**-**	**460**	**216**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**96,100**	**94,946**	**1,154**	**51,336**	**38,413**	**1,153**	**755**	**(23)**	**27**	**(488)**
Total	**485,469**	**475,842**	**9,627**	**385,358**	**279,440**	**9,586**	**3,946**	**(123)**	**(16)**	**(4,045)**

(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 38,414, 33,144, -, 7,556, 16,985 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.

	31 March 2015[h]									
	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	2,133	2,042	91	2,123	1,850	89	44	11	(16)	(44)
Mining and quarrying	715	715	-	691	362	-	-	(2)	-	(1)
Industry	27,596	24,903	2,693	26,608	16,211	2,682	457	74	(19)	(534)
Construction & real-estate[g]	46,807	45,488	1,319	46,745	16,543	1,318	732	45	-	(314)
Electricity & water	25,553	23,637	1,916	25,426	22,868	1,916	1,385	(6)	(2)	(659)
Commerce[h]	4,089	4,021	68	3,552	2,736	68	1	-	-	(32)
Hotels, accomodation and food services	26,222	24,770	1,452	25,929	21,330	1,397	265	6	1	(375)
Transport and storage	2,959	2,769	190	2,940	2,617	190	154	2	2	(30)
Communications &computer services	6,516	6,028	488	6,432	5,506	488	320	-	4	(44)
Financial services	6,186	5,699	487	5,539	4,314	480	473	11	11	(205)
Business & other services	23,423	23,370	53	16,872	10,071	45	17	(63)	(8)	(283)
Public & community services	7,025	6,907	118	7,003	4,895	103	41	4	6	(66)
Total commercial	7,309	7,272	37	7,254	6,043	37	20	(3)	-	(129)
Private individuals - housing loans	186,533	177,621	8,912	177,114	115,346	8,813	3,909	79	(21)	(2,716)
Private individuals - other	77,777	77,020	757	77,777	74,963	757	-	(1)	1	(492)
Total public - activity abroad	67,371	66,927	444	67,342	34,913	444	102	47	49	(635)
Banks abroad	331,681	321,568	10,113	322,233	225,222	10,014	4,011	125	29	(3,843)
Governments abroad	7,283	7,283	-	1,865	1,662	-	-	2	-	(2)
Total activity abroad	30,404	30,404	-	249	249	-	-	-	-	-
Total	369,368	359,255	10,113	324,347	227,133	10,014	4,011	127	29	(3,845)

(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 227,134, 29,070, 2,197, 7,793, 103,173 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 142,796 million, which were extended to purchasing groups in the process of construction.

(i) The comparative figures were re-classified pursuant ot Bank of Israel's circular of April 2014 regarding the adoption of the Central Bureau of Statistics' directives regarding Uniform Classification of Economy Sectors – 2011 which replaces the classification set forth in 1993.

	31 March 2015(h)									
	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	114	111	3	112	51	3	3	-	-	(2)
Mining and quarrying	8	8	-	2	2	-	-	-	-	-
Industry	8,866	8,230	636	8,191	4,667	636	244	(15)	-	(111)
Construction & real-estate(g)	13,070	12,494	576	12,767	9,180	576	550	(12)	-	(172)
Electricity & water	317	317	-	97	33	-	-	-	-	(1)
Commerce(h)	7,412	7,265	147	7,337	4,648	147	67	(8)	3	(121)
Hotels, accomodation and food services	1,296	1,257	39	1,296	1,142	39	39	-	-	(12)
Transport and storage	330	308	22	193	189	22	22	(1)	-	(12)
Communications &computer services	1,818	1,816	2	1,629	836	2	2	-	26	(2)
Financial services	17,512	17,409	103	3,090	2,135	103	103	15	47	(76)
Business & other services	5,024	4,961	63	4,819	4,279	63	34	(3)	-	(17)
Public & community services	657	645	12	572	288	12	3	(18)	49	(14)
Total commercial	56,424	54,821	1,603	40,105	27,450	1,603	1,067	(42)	125	(540)
Private individuals - housing loans	1,188	1,139	49	1,188	1,175	49	29	(2)	-	(16)
Private individuals - other	475	438	37	437	376	37	30	1	1	(14)
Total public - activity abroad	58,087	56,398	1,689	41,730	29,001	1,689	1,126	(43)	126	(570)
Banks abroad	27,610	27,610	-	11,276	9,743	-	-	(3)	-	(1)
Governments abroad	13,810	13,810	-	229	184	-	-	-	-	-
Total activity abroad	99,507	97,818	1,689	53,235	38,928	1,689	1,126	(46)	126	(571)
Total	468,875	457,073	11,802	377,582	266,061	11,703	5,137	81	155	(4,416)

(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 38,927, 30,819, -, 11,037, 18,725 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 comparative figures were re-classified pursuant ot Bank of Israel's circular of April 2014 regarding the adoption of the Central Bureau of Statistics' directives regarding Uniform Classification of Economy Sectors – 2011 which replaces the classification set forth in 1993.

	31 December 2015[h]									
	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	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	3,037	2,666	190	138	4	3	(31)
Communications &computer services	6,757	6,420	337	6,638	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 237,288, 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, 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 1,014 million, which were extended to purchasing groups in the process of construction.

	31 December 2015(h)									
	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									
<u>In respect of activity of borrowers abroad</u>										
<u>Public-commercial</u>										
Agriculture	128	126	2	127	72	2	2	2	1	(2)
Mining and quarrying	77	77	-	38	29	-	-	-	-	-
Industry	8,295	7,965	330	7,041	4,638	330	98	(4)	27	(92)
Construction & real-estate(g)	13,503	12,866	637	12,973	9,783	637	434	10	79	(230)
Electricity & water	371	371	-	88	56	-	-	-	-	-
Commerce(h)	7,818	7,786	32	7,729	5,123	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	241	155	86	223	198	86	86	(2)	9	(31)
Communications &computer services	2,093	2,093	-	1,782	677	-	-	(1)	-	(1)
Financial services	17,027	16,935	92	2,801	1,619	92	92	45	7	(68)
Business & other services	5,630	5,579	51	5,560	4,613	51	2	(2)	(1)	(16)
Public & community services	516	515	1	504	391	1	1	(39)	14	(19)
Total commercial	57,276	56,017	1,259	40,443	28,640	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	531	509	22	522	409	22	22	-	8	(6)
Total public - activity abroad	58,983	57,652	1,331	42,141	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	52,740	38,582	1,331	821	3	231	(571)
Total	472,153	462,389	9,764	383,614	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)

	31 March 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 local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
Country	(NIS millions)					
United States	**13,181**	**3,532**	**8,698**	**22,003**	**10,986**	**11,017**
United Kingdom	**-**	**3,488**	**3,620**	**6,762**	**1,946**	**4,816**
France	**558**	**549**	**965**	**-**	**-**	**-**
Switzerland	**-**	**463**	**959**	**561**	**86**	**475**
Germany	**-**	**1,490**	**967**	**-**	**-**	**-**
Others	**397**	**3,777**	**4,879**	**1,169**	**605**	**564**
Total exposure to foreign countries	**14,136**	**13,299**	**20,088**	**30,495**	**13,623**	**16,872**
Total exposure to LDC countries	**234**	**916**	**564**	**1,157**	**605**	**552**
Total exposure to GIIPS countries (d)	**102**	**14**	**243**	**-**	**-**	**-**

	31 March 2016						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
Country	(NIS millions)						
United States	**36,428**	**681**	**287**	**6,294**	**-**	**11,790**	**13,621**
United Kingdom	**11,924**	**237**	**233**	**3,621**	**-**	**2,952**	**4,156**
France	**2,072**	**18**	**17**	**1,097**	**-**	**972**	**1,100**
Switzerland	**1,897**	**-**	**-**	**401**	**-**	**917**	**505**
Germany	**2,457**	**-**	**-**	**194**	**-**	**1,256**	**1,201**
Others	**9,617**	**258**	**249**	**2,467**	**-**	**4,510**	**4,543**
Total exposure to foreign countries	**64,395**	**1,194**	**786**	**14,074**	**-**	**22,397**	**25,126**
Total exposure to LDC countries	**2,266**	**199**	**189**	**1,794**	**-**	**388**	**1,326**
Total exposure to GIIPS countries (d)	**359**	**-**	**-**	**247**	**-**	**163**	**196**

(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.

Country	31 March 2015 Balance sheet exposure (a) Cross-border balance sheet exposure To governments (c)	To banks	To others	Balance sheet exposure of foreign offices of the banking corporation to local residents Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure net after deducting local liabilities
	(NIS millions)					
United States	12,422	3,858	8,614	20,082	9,966	10,116
United Kingdom	40	4,047	4,749	7,166	2,090	5,076
France	-	2,142	455	-	-	-
Switzerland	-	741	895	990	258	732
Germany	-	2,344	1,746	-	-	-
Others	563	4,387	5,325	1,400	678	722
Total exposure to foreign countries	13,025	17,519	21,784	29,638	12,992	16,646
Total exposure to LDC countries	206	940	815	1,270	649	621
Total exposure to GIIPS countries (d)	-	59	246	-	-	-

Country	31 March 2015 Balance sheet exposure (a) Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Off-balance sheet exposure (a) (b) Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Cross-border balance sheet exposure Repayment period Up to one year	Over one year
	(NIS millions)						
United States	35,010	838	378	6,058	-	16,106	8,788
United Kingdom	13,912	331	304	3,219	-	4,673	4,163
France	2,597	11	9	1,188	-	793	1,804
Switzerland	2,368	-	-	518	-	1,371	265
Germany	4,090	2	2	618	-	3,120	970
Others	10,997	421	399	1,876	-	4,811	5,464
Total exposure to foreign countries	68,974	1,603	1,092	13,477	-	30,874	21,454
Total exposure to LDC countries	2,582	350	328	1,110	-	1,673	288
Total exposure to GIIPS countries (d)	305	-	-	61	-	173	132

(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
Country	(NIS millions)					
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	
						Repayment period	
	Total balance sheet exposure	Problematic balance sheet credit risk	Of which: balance of impaired debts	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk	Up to one year	Over one year
Country	(NIS millions)						
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

	31 March 2016					
		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 - constructi	**15,464**	**294**	**274**	**16,032**	**9**	**33**
Construction & real estate - real estate	**23,737**	**708**	**734**	**25,179**	**5**	**19**
Financial services	**10,576**	**13**	**46**	**10,635**	**2**	**1**
Commercial - other	**65,694**	**1,746**	**1,741**	**69,181**	**40**	**142**
Total commercial	**115,471**	**2,761**	**2,795**	**121,027**	**56**	**195**
Private individuals - housing loans [(f)]	**79,607**	**747**	**-**	**80,354**	**719**	**493**
Private individuals - other	**36,637**	**318**	**141**	**37,096**	**75**	**281**
Total public - activity in Israel	**231,715**	**3,826**	**2,936**	**238,477**	**850**	**969**
Banks in Israel	**2,354**	**-**	**-**	**2,354**	**-**	**-**
Government of Israel	**196**	**-**	**-**	**196**	**-**	**-**
Total activity in Israel	**234,265**	**3,826**	**2,936**	**241,027**	**850**	**969**
Activity of borrowers abroad						
Public-commercial						
Construction & real estate	**8,711**	**115**	**377**	**9,203**	**4**	**33**
Commercial - other	**18,055**	**277**	**305**	**18,637**	**2**	**48**
Total commercial	**26,766**	**392**	**682**	**27,840**	**6**	**81**
Private individuals	**1,312**	**3**	**73**	**1,388**	**1**	**3**
Total public - activity abroad	**28,078**	**395**	**755**	**29,228**	**7**	**84**
Banks abroad	**8,969**	**-**	**-**	**8,969**	**-**	**-**
Governments abroad	**216**	**-**	**-**	**216**	**-**	**-**
Total activity abroad	**37,263**	**395**	**755**	**38,413**	**7**	**84**
Total public	**259,793**	**4,221**	**3,691**	**267,705**	**857**	**1,053**
Total banks	**11,323**	**-**	**-**	**11,323**	**-**	**-**
Total governments	**412**	**-**	**-**	**412**	**-**	**-**
Total	**271,528**	**4,221**	**3,691**	**279,440**	**857**	**1,053**

(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 524 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.

	31 March 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 - constructi	15,661	263	619	16,543	8	24
Construction & real estate - real estate	21,027	503	1,338	22,868	5	21
Financial services	10,026	28	17	10,071	1	10
Commercial - other	61,190	3,019	1,655	65,864	48	91
Total commercial	107,904	3,813	3,629	115,346	62	146
Private individuals - housing loans [(f)]	74,206	757	-	74,963	749	468
Private individuals - other	34,476	335	102	34,913	86	194
Total public - activity in Israel	216,586	4,905	3,731	225,222	897	808
Banks in Israel	1,662	-	-	1,662	-	-
Government of Israel	249	-	-	249	-	-
Total activity in Israel	218,497	4,905	3,731	227,133	897	808
Activity of borrowers abroad						
Public-commercial						
Construction & real estate	8,610	25	545	9,180	5	48
Commercial - other	17,290	468	512	18,270	2	365
Total commercial	25,900	493	1,057	27,450	7	413
Private individuals	1,466	26	59	1,551	24	4
Total public - activity abroad	27,366	519	1,116	29,001	31	417
Banks abroad	9,743	-	-	9,743	-	-
Governments abroad	184	-	-	184	-	-
Total activity abroad	37,293	519	1,116	38,928	31	417
Total public	243,952	5,424	4,847	254,223	928	1,225
Total banks	11,405	-	-	11,405	-	-
Total governments	433	-	-	433	-	-
Total	255,790	5,424	4,847	266,061	928	1,225

(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 482 million were classified as problem debts that are not impaired.
(f) Including balance of housing loans in the amount of NIS 159 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 - 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 - constructi	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	9,283	66	434	9,783	4	113
Commercial - other	18,159	368	330	18,857	2	128
Total commercial	27,442	434	764	28,640	6	241
Private individuals	1,510	19	52	1,581	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	-	-	453	-	-
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 three months ended 31 March 2016					
	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	**(219)**	**(2)**	**99**	**(122)**	**(1)**	**(123)**
Accounting write-offs	**(251)**	**(2)**	**(142)**	**(395)**	**-**	**(395)**
Collection of debts written off in previous years	**321**	**-**	**90**	**411**	**-**	**411**
Net accounting write-offs	**70**	**(2)**	**(52)**	**16**	**-**	**16**
Adjustments from translation of financial statements	**(6)**	**1**	**1**	**(4)**	**-**	**(4)**
Balance of allowance for credit losses at end of year[1]	**2,778**	**510**	**755**	**4,043**	**2**	**4,045**
[1]Of which: in respect of off-balance sheet credit instruments	**438**	**-**	**33**	**471**	**-**	**471**
Unimpaired debts - additional information	**-**	**-**	**-**	**-**	**-**	**-**
In arrears of 90 days or more[(a)]	**62**	**719**	**76**	**857**	**-**	**857**

	For three months ended 31 March 2015					
	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	37	(3)	48	82	(1)	81
Accounting write-offs	(185)	(1)	(148)	(334)	-	(334)
Collection of debts written off in previous years	81	-	98	179	-	179
Net accounting write-offs	(104)	(1)	(50)	(155)	-	(155)
Adjustments from translation of financial statements	6	(1)	(1)	4	-	4
Balance of allowance for credit losses at end of year[1]	3,256	508	649	4,413	3	4,416
[1]Of which: in respect of off-balance sheet credit instruments	426	-	39	465	-	465
Unimpaired debts - additional information	-	-	-	-	-	-
In arrears of 90 days or more[(a)]	69	766	93	928	-	928

(a) Classified as non-impaired problem loans. Accruing interest income.

	For the year ended 31 December 2015					
	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	(123)	(12)	(614)	(1,302)	-	(1,302)
Accounting write-offs	(676)	-	361	771	-	771
Collection of debts written off in previous years	410	(12)	(253)	(531)	-	(531)
Net accounting write-offs	(266)	(2)	(1)	2	-	2
Adjustments from translation of financial statements	5	513	707	4,153	3	4,156
Balance of allowance for credit losses at end of year[1]	2,933	-	33	482	-	482
[1]Of which: in respect of off-balance sheet credit instruments	449	410	-	361	771	-
Unimpaired debts - additional information						
In arrears of 90 days or more[(a)]	67	770	105	942	-	942

(a) Classified as non-impaired problem loans. Accruing interest income.

Credit risk – Disclosure with regard to portfolios dealt with 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 rating.

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 will be chosen.

When there are three credit ratings, the two best ratings will be considered, and the risk weighting for the lower rating out of these two will be taken as appropriate.

The amount of the balances of the banking corporation before and after credit risk mitigation in each risk weighting and reduction from capital.

Credit risk according to the Standardized Approach:

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

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

	31 March 2016					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	**94,019**	**3,351**	-	-	**355**	-
Debts of public sector entities	-	**8,080**	-	-	**5,105**	-
Debts of banking corporations	**1,448**	**12,148**	-	-	**2,365**	-
Debts of securities companies	-	**923**	-	-	-	-
Debts of corporations	-	**1,486**	-	-	**1,591**	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	**71,984**
Small business loans	-	-	-	-	-	**20,984**
Housing mortgages	-	-	**36,779**	-	**14,808**	**32,753**
Securitization	-	**3,024**	-	**173**	**48**	-
Other assets	**2,678**	-	-	-	-	-
Total	**98,145**	**29,012**	**36,779**	**173**	**24,272**	**125,721**

	31 March 2015[c]					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	75,530	1,790	-	-	318	-
Debts of public sector entities	-	4,821	-	-	4,286	-
Debts of banking corporations	1,777	10,902	-	-	5,025	-
Debts of securities companies	-	1,846	-	-	-	-
Debts of corporations	-	979	-	-	1,285	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	71,012
Small business loans	-	-	-	-	-	19,616
Housing mortgages	-	-	39,731	-	10,538	27,984
Securitization	-	2,276	-	229	120	-
Other assets	2,364	-	-	-	-	-
Total	79,671	22,614	39,731	229	21,572	118,623

	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	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to 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(c) Restated due to due to implementation of the Supervisor of Banks' directive regarding discounting software costs.

(c) Restated, including implementation of the directives of the Supervisor of Banks concerning the capitalization of software costs.

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[(a)]
462	**-**	**-**	**-**	**-**	**-**	**-**	**98,187**
1	**1**	**-**	**-**	**-**	**-**	**-**	**13,187**
574	**33**	**-**	**-**	**-**	**-**	**-**	**16,568**
-	**-**	**-**	**-**	**-**	**-**	**-**	**923**
136,176	**2,276**	**-**	**-**	**-**	**-**	**-**	**141,529**
70,367	**396**	**-**	**-**	**-**	**-**	**-**	**70,763**
95	**250**	**-**	**-**	**-**	**-**	**-**	**72,329**
75	**213**	**-**	**-**	**-**	**-**	**-**	**21,272**
2,819	**198**	**-**	**-**	**-**	**-**	**-**	**87,357**
-	**-**	**-**	**-**	**-**	**-**	**1**	**3,246**
9,738	**482**	**-**	**3,987**	**-**	**-**	**-**	**16,885**
220,307	**3,849**	**-**	**3,987**	**-**	**-**	**1**	**542,246**

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[(a)]
229	-	-	-	-	-	-	77,867
1	-	-	-	-	-	-	9,108
651	-	-	-	-	-	-	18,355
-	-	-	-	-	-	-	1,846
143,382	2,194	-	-	-	-	-	147,840
86,918	904	-	-	-	-	-	67,822
152	183	-	-	-	-	-	71,347
118	169	-	-	-	-	-	19,912
3,682	1,418	-	-	-	-	-	83,346
2	-	-	-	-	-	120	2,747
11,305	442	-	2,988	-	-	-	17,099
226,440	5,310	-	2,988	-	-	120	517,298

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[(a)]
482	-	-	-	-	-	-	91,177
1	-	-	-	-	-	-	10,895
481	34	-	-	-	-	-	15,873
-	-	-	-	-	-	-	1,021
139,749	2,062	-	-	-	-	-	144,901
70,466	732	-	-	-	-	-	71,199
73	196	-	-	-	-	-	71,104
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 amount of exposure after allowance for credit losses and after mitigation of credit risk[(b)] (Third Pillar):

	31 March 2016					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	**94,019**	**3,351**	-	-	**355**	-
Debts of public sector entities	-	**8,080**	-	-	**5,105**	-
Debts of banking corporations	**1,448**	**12,148**	-	-	**2,365**	-
Debts of securities companies	-	**923**	-	-	-	-
Debts of corporations	-	**1,486**	-	-	**1,591**	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	**71,984**
Small business loans	-	-	-	-	-	**20,984**
Housing mortgages	-	-	**36,779**	-	**14,808**	**32,753**
Securitization	-	**3,024**	-	**173**	**48**	-
Other assets	**2,678**	-	-	-	-	-
Total	**98,145**	**29,012**	**36,779**	**173**	**24,272**	**125,721**

	31 March 2015[(c)]					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	75,530	1,790	-	-	318	-
Debts of public sector entities	-	4,821	-	-	4,286	-
Debts of banking corporations	1,777	10,902	-	-	5,025	-
Debts of securities companies	-	1,846	-	-	-	-
Debts of corporations	-	979	-	-	1,285	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to individuals	-	-	-	-	-	71,012
Small business loans	-	-	-	-	-	19,616
Housing mortgages	-	-	39,731	-	10,538	27,984
Securitization	-	2,276	-	229	120	-
Other assets	2,364	-	-	-	-	-
Total	79,671	22,614	39,731	229	21,572	118,623

	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	-
Debts collateralised by commercial real estate	-	-	-	-	-	-
Retail exposures to 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.

(c) Restated, including implementation of the directives of the Supervisor of Banks concerning the capitalization of software costs.

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[(a)]
462	**-**	**-**	**-**	**-**	**-**	**-**	**98,187**
1	**1**	**-**	**-**	**-**	**-**	**-**	**13,187**
574	**33**	**-**	**-**	**-**	**-**	**-**	**16,568**
-	**-**	**-**	**-**	**-**	**-**	**-**	**923**
136,176	**2,276**	**-**	**-**	**-**	**-**	**-**	**141,529**
70,367	**396**	**-**	**-**	**-**	**-**	**-**	**70,763**
95	**250**	**-**	**-**	**-**	**-**	**-**	**72,329**
75	**213**	**-**	**-**	**-**	**-**	**-**	**21,272**
2,819	**198**	**-**	**-**	**-**	**-**	**-**	**87,357**
-	**-**	**-**	**-**	**-**	**-**	**1**	**3,246**
9,738	**482**	**-**	**3,987**	**-**	**-**	**-**	**16,885**
220,307	**3,849**	**-**	**3,987**	**-**	**-**	**1**	**542,246**

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[(a)]
229	-	-	-	-	-	-	77,867
1	-	-	-	-	-	-	9,108
651	-	-	-	-	-	-	18,355
-	-	-	-	-	-	-	1,846
143,382	2,194	-	-	-	-	-	147,840
86,918	904	-	-	-	-	-	67,822
152	183	-	-	-	-	-	71,347
118	169	-	-	-	-	-	19,912
3,682	1,418	-	-	-	-	-	83,346
2	-	-	-	-	-	120	2,747
11,305	442	-	2,988	-	-	-	17,099
226,440	5,310	-	2,988	-	-	120	517,298

100%	150%	225%	250%	350%	650%	Deduction from equity	Gross credit exposure[(a)]
482	-	-	-	-	-	-	91,177
1	-	-	-	-	-	-	10,895
481	34	-	-	-	-	-	15,873
-	-	-	-	-	-	-	1,021
139,749	2,062	-	-	-	-	-	144,901
70,466	732	-	-	-	-	-	71,199
73	196	-	-	-	-	-	71,104
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 24 – The amount of exposure after credit loss expenses and after mitigation of credit risk(b) (Third Pillar)

	31 March 2016					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	**100,972**	**3,351**	**-**	**-**	**355**	**-**
Debts of public sector entities	**949**	**2,912**	**-**	**-**	**5,033**	**-**
Debts of banking corporations	**1,448**	**10,201**	**-**	**-**	**2,377**	**-**
Debts of securities companies	**-**	**826**	**-**	**-**	**-**	**-**
Debts of corporations	**-**	**19,270**	**-**	**-**	**5,404**	**-**
commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**
individuals	**-**	**-**	**-**	**-**	**-**	**70,515**
Small business loans	**-**	**-**	**-**	**-**	**-**	**18,744**
Housing mortgages	**-**	**-**	**36,778**	**-**	**14,808**	**32,717**
Securitization	**-**	**2,289**	**-**	**173**	**48**	**-**
Other assets	**2,678**	**-**	**-**	**-**	**-**	**-**
Total	**106,047**	**38,849**	**36,778**	**173**	**28,025**	**121,976**

	31 March 2015(c)					
	0%	20%	35%	40%	50%	75%
	NIS millions					
Sovereign debts	80,136	1,790	-	-	318	-
Debts of public sector entities	689	2,512	-	-	4,018	-
Debts of banking corporations	1,777	8,040	-	-	4,727	-
Debts of securities companies	-	1,233	-	-	-	-
Debts of corporations	-	859	-	-	1,899	-
commercial real estate	-	-	-	-	-	-
individuals	-	-	-	-	-	68,959
Small business loans	-	-	-	-	-	17,292
Housing mortgages	-	-	39,728	-	10,538	27,925
Securitization	-	1,938	-	229	120	-
Other assets	2,364	-	-	-	-	-
Total	84,966	16,372	39,728	229	21,620	114,176

	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	-
commercial real estate	-	-	-	-	-	-
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.

(c) Restated, including implementation of the directives of the Supervisor of Banks concerning the capitalization of software costs.

100%	**150%**	**225%**	**250%**	**350%**	**650%**	**1250%**	**Gross credit exposure[a]**
134	**-**	**-**	**-**	**-**	**-**	**-**	**104,812**
1	**1**	**-**	**-**	**-**	**-**	**-**	**8,896**
574	**4**	**-**	**-**	**-**	**-**	**-**	**14,604**
-	**-**	**-**	**-**	**-**	**-**	**-**	**826**
105,100	**2,180**	**-**	**-**	**-**	**-**	**-**	**131,954**
69,592	**380**	**-**	**-**	**-**	**-**	**-**	**69,972**
128	**250**	**-**	**-**	**-**	**-**	**-**	**70,893**
27	**208**	**-**	**-**	**-**	**-**	**-**	**18,979**
2,472	**198**	**-**	**-**	**-**	**-**	**-**	**86,973**
-	**-**	**-**	**-**	**-**	**-**	**1**	**2,511**
9,738	**482**	**-**	**3,987**	**-**	**-**	**-**	**16,885**
187,766	**3,703**	**-**	**3,987**	**-**	**-**	**1**	**527,305**

100%	150%	225%	250%	350%	650%	1250%	Gross credit exposure[a]
123	-	-	-	-	-	-	82,367
1	-	-	-	-	-	-	7,220
566	-	-	-	-	-	-	15,110
-	-	-	-	-	-	-	1,233
130,258	2,099	-	-	-	-	-	135,115
65,185	898	-	-	-	-	-	66,083
64	181	-	-	-	-	-	69,204
22	164	-	-	-	-	-	17,478
3,670	1,418	-	-	-	-	-	83,279
2	-	-	-	-	-	-	2,289
11,305	442	-	2,988	-	-	-	17,099
211,196	5,202	-	2,988	-	-	-	496,477

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 under the Standardized Approach

For the purpose of credit risk mitigation using the standardized 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 standardized approach are:

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

Collateral will be recognized as eligible when it complies with 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 Standardized Approach, the Bank recognizes mainly the following guarantees as eligible:

State of Israel guarantee, Israeli bank guarantee, 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 - Mitigation of credit risk (Third Pillar)

	31 March 2016					
	Gross credit exposure before allowance for credit losses(c)	Gross credit exposure after allowance for credit losses(c)	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral(d)	Net credit exposure(e)
	NIS millions					
Sovereign debts	**98,187**	**98,187**	**(327)**	**6,952**	**-**	**104,812**
Debts of public sector entities	**13,187**	**13,187**	**(5,236)**	**947**	**(2)**	**8,896**
Debts of banking corporations	**16,568**	**16,568**	**(1,247)**	**366**	**(1,083)**	**14,604**
Debts of securities companies	**923**	**923**	**-**	**-**	**(97)**	**826**
Debts of corporations	**141,529**	**141,352**	**(22,473)**	**21,845**	**(8,770)**	**131,954**
Debts collateralised by commercial real estate	**70,763**	**70,749**	**(70)**	**-**	**(707)**	**69,972**
Retail exposures to individuals	**72,329**	**72,189**	**(4)**	**-**	**(1,292)**	**70,893**
Small business loans	**21,272**	**21,123**	**(16)**	**-**	**(2,128)**	**18,979**
Housing mortgages	**87,357**	**87,010**	**(2)**	**-**	**(35)**	**86,973**
Securitization	**3,246**	**3,246**	**(735)**	**-**	**-**	**2,511**
Other assets	**16,885**	**16,885**	**-**	**-**	**-**	**16,885**
Total	**542,246**	**541,419**	**(30,110)**	**30,110**	**(14,114)**	**527,305**

	31 March 2015					
	Gross credit exposure before allowance for credit losses(c)	Gross credit exposure after allowance for credit losses(c)	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral(d)	Net credit exposure(e)
	NIS millions					
Sovereign debts	77,867	77,867	(106)	4,606		82,367
Debts of public sector entities	9,108	9,108	(2,577)	689		7,220
Debts of banking corporations	18,355	18,355	(2,032)	421	(1,634)	15,110
Debts of securities companies	1,846	1,846	-	-	(613)	1,233
Debts of corporations	147,840	146,752	(450)	-	(11,187)	135,115
Debts collateralised by commercial real estate	67,822	67,803	(75)	-	(1,645)	66,083
Retail exposures to individuals	71,347	71,285	(3)	-	(2,078)	69,204
Small business loans	19,912	19,810	(14)	-	(2,318)	17,478
Housing mortgages	83,355	83,346	(1)	-	(66)	83,279
Securitization	2,747	2,747	(458)	-	-	2,289
Other assets	17,099	17,099	-	-	-	17,099
Total	517,298	516,018	(5,716)	5,716	(19,541)	496,477

(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).

(d) Restated due to implementation of the Supervisor of Banks' directive regarding discounting software costs.

	31 December 2015					
	Gross credit exposure before allowance for credit losses(c)	Gross credit exposure after allowance for credit losses(c)	Total exposure covered by guarantees deducted	Total amounts added	Total exposure covered by eligible financial collateral(d)	Net credit exposure(e)
	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

(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).

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 debt of the counterparty.

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 high-activity customers on a similar basis.

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

	31 March 2016		31 March 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	**328,095**	**9,318**	347,906	12,168	320,844	8,587
Foreign currency contracts	**275,853**	**7,841**	308,892	12,145	249,151	7,064
Contracts for shares	**90,144**	**5,111**	102,253	5,073	100,923	5,169
Commoditries and other contracts	**776**	**112**	720	113	687	107
Credit derivative transactions[(a)]	**-**	**-**	-	-	-	-
Offsetting benefits	**-**	**(14,036)**	-	(17,658)	-	(12,274)
Eligible collateral	**-**	**(2,274)**	-	(3,973)	-	(3,450)
Total	**694,868**	**6,072**	759,771	7,868	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 derived 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 wide dispersion of borrowers and sometimes also in sectoral and inter-sectoral dispersion. In addition, in some instruments there is an allocation to layers of different risk levels that 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)

	31 March 2016		
	Overall balance of exposure[(a)]	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	**401**	-	-
RMBS-type securities issued by FNMA and by FHLMC	**1,136**	-	-
Other securities	**735**	-	-
Other mortgage-backed securities:	-	-	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**5,174**	-	-
Other RMBS-type mortgage-backed securities	**229**	-	-
Other CMBS-type mortgage-backed securities	**254**	-	-
Total mortgage-backed securities (MBS)	**7,929**	-	-
	-		
Asset-backed securities (ABS)	-		
Credit card receivables	**89**	-	-
Lines of credit for any purpose secured by dwelling	-	-	-
Credit for purchase of vehicle	-	-	-
Other credit to private persons	**3**	-	-
Credit not to private persons	**1**	-	-
CLO-type debentures	**1,935**	-	**173**
Others	-	-	-
Total asset-backed (ABS)	**2,028**	-	**173**
Total asset-backed securities	**9,957**	-	**173**

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

	31 March 2016			
	Accumulated total exposure			Capital requirements in respect of securitization
	Securitization exposures	Resecuritization exposures	Total	
	NIS millions			
20%	**3,024**	-	**3,024**	**76**
40%	-	**173**	**173**	**9**
50%	**48**	-	**48**	**3**
100%	-	-	-	-
225%	-	-	-	-
1250%	**1**	-	**1**	**2**
Total	**3,073**	**173**	**3,246**	**90**

* 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)

	31 March 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	**7**
Other securities	-
Other mortgage-backed securities:	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these	**376**
Other RMBS-type mortgage-backed securities	**4**
Other CMBS-type mortgage-backed securities	**86**
Total mortgage-backed securities (MBS)	**473**
Asset-backed securities (ABS)	
Credit card receivables	**12**
Lines of credit for any purpose secured by dwelling	-
Credit for purchase of vehicle	**72**
Other credit to private persons	**13**
Credit not to private persons	-
CLO-type debentures	-
Others	**127**
Total asset-backed (ABS)	**224**
Total asset-backed securities	**697**

(a) As of 31.March 2016, there are no re-securitization positions in the trading portfolio.

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

	31 March 2016	
	Accumulated total exposure	Capital requirements in respect of securitization exposures
	NIS millions	
20%	**150**	**4**
50%	**159**	**10**
100%	**1**	**0**
350%	**2**	**1**
1250%	**2**	**2**
Total	**314**	**17**

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

Banking Portfolio

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

	31 March 2015		
	Overall balance of exposure[(a)]	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	16	-	-
RMBS-type securities issued by FNMA and by FHLMC	1,173	-	-
Other securities	-	-	-
Other mortgage-backed securities:	-	-	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,452	-	-
Other RMBS-type mortgage-backed securities	651	-	-
Other CMBS-type mortgage-backed securities	31	-	-
Total mortgage-backed securities (MBS)	5,323	-	-
Asset-backed securities (ABS)			
Credit card receivables	95	-	-
Lines of credit for any purpose secured by dwelling	2	-	2
Credit for purchase of vehicle	-	-	-
Other credit to private persons	4	-	-
Credit not to private persons	1	-	-
CLO-type debentures	1,963	-	229
Others	-	-	-
Total asset-backed (ABS)	2,065	-	231
Total asset-backed securities	7,388	-	231

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

	31 March 2015			
	Accumulated total exposure			Capital requirements in respect of securitization exposures
	Securitization exposures	Resecuritization exposures	Total	
	NIS millions			
20%	2,276	-	2,276	57
40%	-	229	229	11
50%	120	-	120	8
100%	-	2	2	-
225%	-	-	-	-
Total	2,516	231	2,747	264

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

Trading portfolio

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

	31 March 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	10
Other securities	-
Other mortgage-backed securities:	-
RMBS-type securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these en	525
Other RMBS-type mortgage-backed securities	6
Other CMBS-type mortgage-backed securities	128
Total mortgage-backed securities (MBS)	669
Asset-backed securities (ABS)	
Credit card receivables	1
Lines of credit for any purpose secured by dwelling	78
Credit for purchase of vehicle	16
Other credit to private persons	47
Credit not to private persons	-
CLO-type debentures	138
Others	298
Total asset-backed (ABS)	311
Total asset-backed securities	980

(a) As of 31.March 2016, there are no re-securitization positions in the trading portfolio.

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

	31 March 2015	
	Accumulated total exposure	Capital requirements in respect of securitization exposures
	NIS millions	
20%	237	6
50%	200	13
100%	3	0
350%	3	1
1250%	2	3
Total	445	23

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

Banking portfolio

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

	31 December 2015		
	Overall balance of exposure[(a)]	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 FHLMC	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

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

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

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

	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 en	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

* As of 31.December2015, there are no re-securitization positions in the trading portfolio

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

	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

Market risk is defined as risk of balance sheet and off-balance sheet positions loss caused by a change in the fair-value of a financial instrument due to change in market conditions (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 in 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 control means and tools to measure risks, and control means and supervision of these risks, while applying corporate governance comprising three "lines of defense".

Market Risks Management Policy

Market risks management policy is an expression of the Group's market risks strategy, this alongside the present procedures for identifying, measuring, follow-up, development and control of market risks. The policy is intended from one hand to support reaching business targets while assessing the risks and opportunities that can result from exposure to risks compared with the expected profit that they can generate, and on the other hand, intended to decrease the risk level resulting from the ongoing activity of the Bank, including maintaining a high level of liquidity.

The policy constitutes an important tool for defining the risk appetite of the Bank 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 first quarter of 2016 there were no material changes made in the organizational structure, in the policy and corporate governance of market risks management, as they were detailed in the 2015 Report on Risks.

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

	31 March		31 December
	2016	2015	2015
	NIS millions		NIS millions
Capital requirements[(a)] in respect of:			
Interest rate risks	**583**	557	546
Share price risks	**10**	70	34
Exchange rate risk	**92**	68	56
Options	**47**	49	15
Total capital requirements in respect of market risks	**732**	744	651

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

Market risks capital requirements are presented in the above table according to the Standardized 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			
	31 March		31 December
	2016	2015	2015
	%		
Unlinked	**(6.3)**	(22.4)	(19.3)
Index-linked	**7.1**	219.0	19.5
Foreign Currency	**(0.8)**	0.5	(0.2)

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

During the first quarter 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 31 March 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	(1)	(13)	-	-	(8)
Increase of 10% in exchange rate	25	(26)	(6)	-	(16)
Decrease of 5% in exchange rate	5	8	(9)	-	9
Decrease of 10% in exchange rate	14	25	(17)	1	18

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)

	31 March		31 December
	2016	2015	2015
	NIS millions		
Quoted shares in the available portfolio	**1,066**	1,406	1,050
Unquoted shares in the available portfolio	**1,530**	2,369	1,653
Total	**2,596**	3,775	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:

	31 March 2016			31 March 2015			31 December 2015		
Scenario	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	**(460)**	**591**	**(51)**	(424)	437	(42)	(641)	708	(67)
Trading portfolio	**(56)**	**45**	**(6)**	(121)	125	(12)	(87)	111	(7)
In foreign currency:									
Banking portfolio	**45**	**(90)**	**5**	4	(94)	-	(32)	(74)	(3)
Trading portfolio	**(79)**	**(18)**	**(2)**	(46)	36	(5)	7	(33)	2

	Potential erosion in annual profit		
	31 March 2016	31 March 2015	31 December 2015
	Actual		
Total	**501**	62	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.

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		
	31 March 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*	**868**	**(1,218)**	**104**	**(445)**	**320**	**(39)**
	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 remeasured 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 31 March 2016 is estimated to be a decrease in the value of the assets amounting to NIS 100 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 of the transitional 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 interests, the Bank's sensitivity to changes in interest increased. In order to minimize the capital volatility, Leumi is hedging part of this exposure. Also, during April, restrictions on exposure to interest were approved by the Board of Directors reflecting the implications of implementing the employee rights standard, with emphasis on the sensitivity of capital adequacy to interest ratio.

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:

	31 March 2016					
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**262,457**	**51,807**	**67,221**	**8,239**	**9,312**	**399,036**
Amounts receivable in respect of derivative and off-balance sheet financial instruments	**276,002**	**7,255**	**204,098**	**54,114**	**25,567**	**567,036**
Financial liabilities[(a)]	**215,246**	**62,121**	**86,736**	**13,462**	**9,254**	**386,819**
Amounts payable in respect of derivative and off-balance sheet financial instruments	**298,419**	**8,363**	**185,357**	**49,606**	**26,376**	**568,121**
Net fair value of financial instruments	**24,794**	**(11,422)**	**(774)**	**(715)**	**(751)**	**11,132**

	31 March 2015					
	Israeli currency		Foreign currency including foreign-currency linked Israeli currency			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	225,938	54,617	68,019	7,115	9,754	365,443
Amounts receivable in respect of derivative and off-balance sheet financial instruments	322,340	7,810	207,739	61,911	39,417	639,217
Financial liabilities	191,732	46,390	82,286	14,958	9,029	344,395
Amounts payable in respect of derivative and off-balance sheet financial instruments	339,800	9,423	194,033	54,153	40,576	637,985
Net fair value of financial instruments	16,746	6,614	(561)	(85)	(434)	22,280

	31 December 2015					
	Israeli currency		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

	31 March 2016						
	changes in interest rates					Change in fair value	
	Israeli currency		Foreign currency including foreign-currency linked Israeli				
	Unlinked	CPI-linked	Dollar	Euro	Others	Total	Total
	NIS millions					NIS millions	In %
Corresponding immediate increase of 1%	**23,555**	**(9,613)**	**(1,284)**	**(744)**	**(748)**	**34**	**0.3**
Corresponding immediate increase of 0.1%	**24,660**	**(11,218)**	**(820)**	**(718)**	**(751)**	**21**	**0.19**
Corresponding immediate decrease of 1%	**26,228**	**(13,686)**	**(395)**	**(685)**	**(754)**	**(424)**	**(3.8)**

(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 March 31, 2016 as a decrease of some NIS 100 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 influence of the transitional provisions of the Standard on employee rights, according to which the capital adequacy ratio is calculated.

	31 March 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	15,816	6,403	(626)	(91)	(445)	(1,223)	(5.49)
Corresponding immediate increase of 0.1%	16,653	6,593	(568)	(86)	(435)	(123)	(0.55)
Corresponding immediate decrease of 1%	17,769	6,884	(483)	(77)	(423)	1,390	6.24

	31 December 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%	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)

Table 39 - Exposure to interest rates

	31 March			31 December		
	2016			2015		
	Linked	Index	Foreign currency	Linked	Index	Foreign currency
Average duration in years:						
Average duration of assets[(a)]	**1.18**	**3.49**	**1.01**	**1.06**	**3.26**	**1.05**
Average duration of liabilities[(a)]	**1.00**	**2.90**	**0.87**	**0.94**	**3.03**	**0.95**
Average duration gap in years	**0.18**	**0.59**	**0.14**	**0.12**	**0.23**	**0.10**
IRR gap (%)	**1.60**	**1.33**	**0.65**	**1.94**	**1.33**	**0.82**

(a) Includes future transactions and options, and relying on 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 1.04%.

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 3.75 years, and the IRR gaps amounts to some 1.04%.

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 1.18 years in unlinked shekels and 0.92 years in foreign currency, and the IRR gap amounts to 1.7% and 0.59% 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 subject of "liquidity coverage ratio" the liquidity coverage ratio was determined, which examines that in a horizon of 30 days in a stress scenario the banking corporation has a satisfactory 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 a 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 31 March 2016		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)
	NIS millions		NIS millions	
Total high-quality liquid assets	-	**96,177**	-	84,279
Cash outflows				
of which:	**167,266**	**11,189**	161,800	11,239
Stable deposits	**45,449**	**2,272**	43,817	2,191
Less stable deposits	**61,504**	**7,108**	62,524	7,384
Deposits for a period in escess of 30 days (Section 84)	**60,313**	**1,809**	55,459	1,664
Unsecured wholesale financing, of which:	**123,326**	**77,228**	126,260	80,797
cooperative banking corporations	-	-	-	-
Non-operational deposts (all the counterparties)	**122,991**	**76,893**	125,888	80,425
Unsecured debts	**335**	**335**	372	372
Secured wholesale financing	-	-	-	-
Additional liquidity requirements, of which:	**82,260**	**19,013**	85,968	19,413
collateral requirements	**13,433**	**13,433**	13,427	13,427
products	-	-	-	-
Credit and liquidity facilities lines	**68,827**	**5,580**	72,541	5,986
Other contractual financing obligations	**5,926**	**5,926**	5,444	5,444
Other contingent financing obligations	**43,301**	**1,448**	43,300	1,460
Total cash outflows		**114,804**	-	118,353
Cash inflows	-	-	-	-
Secured loans (for example resale transactions)	**1,570**	-	1,570	-
Cash inflows from exposures repaid in order	**41,981**	**26,221**	41,981	28,361
Other cash inflows	**15,296**	**11,526**	15,296	9,446
Total cash inflows	**58,847**	**37,747**	58,847	37,807
Total adjusted value(c)	-	-	-	-
Total high-qualit liquid assets	-	**96,177**	-	84,279
Total net cash outflows	-	**77,057**	-	80,546
Liquidity coverage ratio	-	**125%**	-	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 a weighted average of 75 observations during the first quarter of 2016 and 72 observations during the fourth quarter of 2015.

Table 41 - Composition of high quality liquid assets at 31.03.2016 at Group level in NIS millions:

	As at 31 March 2016			As at 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
	Total weighted value			Total weighted value		
Total Level 1 assets	**72,683**	**27,930**	**100,613**	71,723	22,792	94,515
Total Level 2a assets	**-**	**2,231**	**2,231**	-	3,020	3,020
Total Level 2b assets	**9**	**151**	**160**	3	88	91
Total high-quality liquid assets	**72,692**	**30,312**	**103,004**	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 31 March 2016			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
	Total weighted value			Total weighted value		
Total Level 1 assets	**72,116**	**20,372**	**92,488**	64,783	15,842	80,625
Total Level 2a assets	**-**	**3,445**	**3,445**	-	3,363	3,363
Total Level 2b assets	**119**	**125**	**244**	129	162	291
Total high-quality liquid assets	**72,235**	**23,942**	**96,177**	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)

	31 March			
	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			**450**	**400**
Securities	**1,544**	**1,300**	**-**	**1,311**
Credit to the public	**-**	**97**	**365**	**-**

	31 March			
	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			627	1,252
Securities	1,507	1,596	-	-
Credit to the public	-	93	59	-

	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	1,003	-	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, information technology risks, embezzlement and fraud risks, legal risks, compliance risks and business continuity.

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. As part of the policy, new/ substantial products risk management methodology was determined.

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, and existing and required controls.

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 and building a dedicated portal for managing operational risk.

During the first quarter of 2016 there were no significant changes in the organizational structure, in policy and the corporate governance of operational risk management, as detailed in the Bank's financial reports for 2015

Major risk areas in operational risks

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 sensitive information is executed in several levels: In information systems and mainly in data banks, in managing the permissions and providing access to systems in conformity to sensitive information definitions and employees in sensitive positions, diligent protection of information by physical security aspects 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 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 maintaining customers' privacy.

In order to manage the aforesaid risks, a policy document is 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)

On 28 March 2016, the Knesset in plenary session enacted the Remuneration Law for Officeholders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration), 2016.The Law established restrictions on the remuneration of office holders or other employees in financial corporations.

The Bank is making preparations for dealing with possible implications when the law comes into force, including examination of the likelihood of key employees terminating their service and to examine the impact on the Bank's long-term plans, including the ability to significantly streamline operations in accordance with supervisory requirements.

Apart from this risk, 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 customers 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 the image 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 flexibility 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

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

On 28 March, the Knesset approved the second and third readings of the Remuneration Law for Office holders in Financial Corporations (Special Approval and Disallowance of Expenditure for Tax Purposes for Exceptional Remuneration) 2016. The Law sets the 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 the expected cost being estimated at NIS 2.5 million per year.
- No agreement will be approved 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 Institutions taxable income it is defined that an expense that exceeds the ceiling defined in the Law will not be eligible for deduction as a recognized 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.
- Sanction is defined; according to which a corporation that does not comply with the rules, the agreement will be regarded as invalid (in accordance with section 280 of the Companies Law).

Regarding new agreements, the limitations on salary will apply at the time of the Law's publication, and regarding existing agreements the limitations will apply six months after the Law's publication.

On 7 April 2016, the Supervisor of Banks published a letter to the Chairmen and CEO's of the banking corporations, according to which the banking corporations are required to estimate the possible impact and risks to the Bank from the time the Law becomes effective, including an examination of the possibilities of departure of key personnel, and the effects on the Bank's long-term plans including the ability to undertake significant efficiency programs, in accordance with the Supervisor's requirements.

In addition, banking corporations are required to examine the necessity to revise the obligations to employee rights in the banks' next financial reports against the background of the changes that occurred under the circumstances that may affect the estimates on retirement in banking corporations.