# Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at June 30, 2017

Q2

bank hapoalim

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This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew will prevail.

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## Introduction

The information presented below in the Report on Risks, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations. Additional information concerning risks, as specified in the reporting directives, which is not based on the disclosure requirements published by the Basel Committee is marked [AI] next to the heading of the paragraph.

This publication of the Report on Risks serves as a supplement and expansion of information accompanying the financial reporting of Bank Hapoalim B.M. on the subjects of risk and capital management. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; the Financial Statements as at December 31, 2016, and the accompanying Notes; and the Condensed Financial Statements as at June 30, 2017, and the accompanying Notes.

## Forward-Looking Information

Most of the information in this report that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intend," "plan," "aim," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature. The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or that actual developments may be the opposite of expectations.

## A. General Disclosure Principle

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the periodic financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks.

Within the discussions of the financial statements of the Bank, the Board of Directors of the Bank approved the publication of the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks.

## B. Applicability of Implementation

The applicability of implementation refers to the working framework for the capital measurement and adequacy of Bank Hapoalim.

In general, the capital requirements of the Bank are based on its consolidated financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Banking Supervision Department.

According to Israeli GAAP, subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial statements, but different consolidation rules sometimes apply for the purposes of the supervision of capital. However, as at June 30, 2017, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

The capital requirements of banking subsidiaries overseas are calculated in accordance with the regulatory directives established by the regulator in the subsidiary's country.

There are no significant prohibitions or restrictions on the transfer of supervisory capital within the Group, with the exception of Bank Pozitif, for which any capital beyond the Pillar 1 requirements is not available at the level of the Group, and against which capital is therefore allocated within Pillar 2 calculations. With regard to the limits established in the Bank of Israel's permit for the acquisition of control of the Bank in connection with the distribution of retained earnings, see Note 25 to the Financial Statements for 2016 and Note 9 to the Condensed Financial Statements as at June 30, 2017.

Some of the subsidiaries overseas have not yet fully adopted the requirements concerning the leverage ratio. The Basel Committee working framework is therefore applied only on the consolidated level.

For further details regarding the principal subsidiary and affiliated companies of the Bank, see Note 15C to the Financial Statements for 2016.

## C. Capital – Structure and Capital Adequacy

Capital measurement is based on the division of capital into Tier 1 capital (which includes common equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital.

For details regarding the structure of supervisory capital, the composition of capital, and limits on the structure of capital, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

### Calculation of the Capital Ratio

Table C-1: Calculation of the ratio of capital to risk-adjusted assets

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | | NIS millions | |
| **1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions** | | | |
| Common equity Tier 1 capital | **(1)36,245** | 34,654 | (1)35,045 |
| Additional Tier 1 capital | **1,221** | 1,465 | 1,465 |
| Total Tier 1 capital | **(1)37,466** | 36,119 | (1)36,510 |
| Tier 2 capital | **10,373** | 12,886 | 11,609 |
| Total overall capital | **(1)47,839** | 49,005 | (1)48,119 |
| **2. Weighted balances of risk-adjusted assets** | | | |
| Credit risk | **(2)290,746** | 312,541 | (2)290,139 |
| Market risks | **4,913** | 4,047 | 4,866 |
| Operational risk | **23,566** | 23,091 | 23,374 |
| Total weighted balances of risk-adjusted assets | **(2)319,225** | 339,679 | (2)318,379 |
| | | % | |
| **3. Ratio of capital to risk-adjusted assets** | | | |
| Ratio of common equity Tier 1 capital to risk-adjusted assets | **11.35%** | 10.20% | 11.01% |
| Ratio of Tier 1 capital to risk-adjusted assets | **11.74%** | 10.63% | 11.47% |
| Ratio of total capital to risk-adjusted assets | **14.99%** | 14.43% | 15.11% |
| Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department | **(3)10.20%** | (3)9.11% | (3)9.17% |
| Minimum total capital ratio required by the Banking Supervision Department | **(3)13.70%** | (3)12.61% | (3)12.67% |

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plan, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel" (hereinafter: Efficiency Plan Adjustments), allocated in equal parts over five years, from 2017 onward. For additional details regarding the effect of the transitional directives and the Efficiency Plan Adjustments, see Note 9 to the Condensed Financial Statements.

(2) A total of NIS 958 million as at June 30, 2017, and NIS 1,065 million as at December 31, 2016, was deducted from the total weighted balances of risk-adjusted assets, due to Efficiency Plan Adjustments, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning in 2017.

(3) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017.

Table C-2: Capital components for the calculation of the capital ratio[A]

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | NIS millions | | |
| **Common equity Tier I capital** | | | |
| Total capital | **35,629** | 34,534 | 34,225 |
| Differences between total capital and common equity Tier I capital | **(26)** | 149 | 95 |
| Total common equity Tier I capital, before supervisory adjustments and deductions | **35,603** | 34,683 | 34,320 |
| **Supervisory adjustments and deductions** | | | |
| Goodwill and intangible assets | **-** | - | - |
| Deferred tax assets | **(32)** | (28) | (27) |
| Investments in capital of financial corporations not consolidated in the reports to the public | **-** | - | - |
| Other supervisory adjustments and deductions – common equity Tier I capital | **(12)** | (1) | (10) |
| Total supervisory adjustments and deductions, before Efficiency Plan Adjustments – common equity Tier I capital | **(44)** | (29) | (37) |
| Total Efficiency Plan Adjustments – common equity Tier I capital* | **686** | - | 762 |
| Total common equity Tier I capital, after supervisory adjustments and deductions | **36,245** | 34,654 | 35,045 |
| **Additional Tier I capital** | | | |
| Additional Tier I capital – instruments, before deductions | **1,221** | 1,465 | 1,465 |
| Additional Tier I capital – total deductions | **-** | - | - |
| Total additional Tier I capital, after deductions | **1,221** | 1,465 | 1,465 |
| Total Tier I capital, after supervisory adjustments and deductions | **37,466** | 36,119 | 36,510 |
| **Tier 2 capital** | | | |
| Tier 2 capital – instruments, before deductions | **6,739** | 9,153 | 7,982 |
| Tier 2 capital – allowance for credit losses, before deductions | **3,634** | 3,733 | 3,627 |
| Total Tier 2 capital, before deductions | **10,373** | 12,886 | 11,609 |
| **Deductions** | | | |
| Total deductions – Tier 2 capital | **-** | - | - |
| Total Tier 2 capital | **10,373** | 12,886 | 11,609 |
| Total overall capital | **47,839** | 49,005 | 48,119 |

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, from 2017 forward.

## Table C-3: Effect of transitional directives and Efficiency Plan Adjustments on common equity Tier 1 capital ratio[A/]

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | % | | |
| **Ratio of capital to risk-adjusted assets** | | | |
| Ratio of common equity Tier 1 capital to risk-adjusted assets before the effect of the transitional directives in Directive 299 and before the effect of the Efficiency Plan Adjustments | **11.08%** | 10.12% | 10.66% |
| Effect of the transitional directives | **0.03%** | 0.08% | 0.07% |
| Ratio of common equity Tier 1 capital to risk-adjusted assets before the effect of the Efficiency Plan Adjustments | **11.11%** | 10.20% | 10.73% |
| Effect of Efficiency Plan Adjustments* | **0.24%** | - | 0.28% |
| Ratio of common equity Tier 1 capital to risk-adjusted assets | **11.35%** | 10.20% | 11.01% |

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, from 2017 forward.

## Table C-4: Capital components subject to volatility[A/]

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions, such as mortality and departure rates.
- Effects of changes in the interest rate on capital reserves from securities available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at June 30, 2017:

| | Effect of decrease of NIS 100 million in common equity Tier 1 capital | Effect of increase of NIS 1 billion in total risk-adjusted assets |
|---|---|---|
| | % | |
| Bank in consolidated data | **(0.03%)** | **(0.04%)** |
| Isracard | **(0.75%)** | **(1.36%)** |

Table C-5: Composition of capital for the purpose of calculating the ratio of capital to risk-adjusted assets

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | NIS millions | | |
| **Tier I capital** | | | |
| Paid-up common share capital and premium | **8,129** | 8,116 | 8,146 |
| Retained earnings | **27,897** | 26,261 | 26,665 |
| Non-controlling interests in equity of consolidated subsidiaries | **79** | 125 | 116 |
| Unrealized profits from adjustments of securities available for sale to fair value | **523** | 415 | 355 |
| Other capital instruments | **(339)** | (234) | (200) |
| Amounts deducted from Tier I capital | **(44)** | (29) | (37) |
| Total common equity Tier I capital | **36,245** | 34,654 | 35,045 |
| Innovative hybrid instruments | **1,221** | 1,465 | 1,465 |
| Total Tier I capital | **37,466** | 36,119 | 36,510 |
| **Tier 2 capital** | | | |
| Hybrid capital instruments and subordinated notes | **209** | 1,065 | 264 |
| Collective allowances for credit losses before the effect of related tax | **3,634** | 3,733 | 3,627 |
| Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors | **6,530** | 8,088 | 7,718 |
| Amounts deducted from Tier 2 capital | **-** | - | - |
| Total Tier 2 capital | **10,373** | 12,886 | 11,609 |
| Total qualifying capital | **47,839** | 49,005 | 48,119 |

For further details, see Note 9 to the Condensed Financial Statements as at June 30, 2017.

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet

| | June 30, 2017 | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| **Common equity Tier 1 capital** | | | | | | | |
| **Common equity Tier 1 capital – instruments and retained earnings** | | | | | | | |
| Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier 1 capital | **8,129** | | 8,116 | | 8,146 | | 1+2 |
| Retained earnings, including dividends proposed or declared after the balance sheet date | **27,897** | **1** | 26,261 | 2 | 26,665 | 2 | 3 |
| Accumulated other comprehensive income and disclosed retained earnings | **(502)** | **(67)** | 181 | (218) | (607) | (159) | 4A+4B |
| Common equity Tier 1 capital instruments issued by the corporation, which qualify for inclusion in supervisory capital during the transitional period | **-** | | - | | - | | |
| Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests) | **79** | **23** | 125 | 45 | 116 | 42 | 5 |
| Common equity Tier 1 capital before supervisory adjustments and deductions | **35,603** | | 34,683 | | 34,320 | | |
| **Common equity Tier 1 capital – supervisory adjustments and deductions** | | | | | | | |
| Stabilization adjustments of valuations | **-** | **-** | - | - | - | - | |
| Goodwill, net of deferred taxes payable | **-** | **-** | - | - | - | - | |
| Other intangible assets, excluding mortgage service rights, net of deferred taxes payable | **-** | **-** | - | - | - | - | 6+7 |
| Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences | **32** | **8** | 28 | 18 | 27 | 18 | 8 |
| Total accumulated other comprehensive income in respect of cash flow hedges of items not presented in the balance sheet at fair value | **(1)** | **-** | (1) | (1) | (1) | (1) | 9 |
| Negative difference between provisions and expected losses | **-** | **-** | - | - | - | - | |
| Increase in equity capital due to securitization transactions | **-** | **-** | - | - | - | - | |
| Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation | **10** | **2** | 2 | 2 | 11 | 7 | 10 |
| Surplus of amount funded over provision, net of deferred taxes payable to be extinguished if the asset becomes impaired or is deducted, in accordance with the Public Reporting Directives | **-** | **-** | - | - | - | - | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| Investment in own ordinary shares held directly or indirectly (including commitments to purchase shares under contractual agreements) | **3** | **1** | - | - | - | - | |
| Mutual cross-holdings in ordinary shares of financial corporations | **-** | **-** | - | - | - | - | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation (in an amount greater than 10% of common equity Tier 1 capital) | **-** | **-** | - | - | - | - | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation | **-** | **-** | - | - | - | - | |
| Mortgage service rights in amounts exceeding 10% of common equity Tier 1 capital | **-** | **-** | - | - | - | - | |
| Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital | **-** | **-** | - | - | 116 | 77 | 13 |
| Amounts of mortgage service rights, deferred tax assets arising from timing differences, and investments at a rate greater than 10% of the ordinary share capital issued by financial corporations, exceeding 15% of the common equity Tier 1 capital of the banking corporation | **-** | **-** | - | - | - | - | |
| Of which: in respect of investments at a rate greater than 10% of the ordinary share capital issued by financial corporations | **-** | **-** | - | - | - | - | |
| Of which: in respect of mortgage service rights | **-** | **-** | - | - | - | - | |
| Of which: deferred tax assets arising from timing differences | **-** | **-** | - | - | - | - | |
| Additional supervisory adjustments and deductions established by the Banking Supervision Department | **(686)** | **-** | - | - | (878) | (77) | |
| Of which: in respect of investments in the capital of financial corporations | **-** | **-** | - | - | - | - | |
| Of which: in respect of mortgage service rights | **-** | **-** | - | - | - | - | |
| Of which: additional supervisory adjustments to common equity Tier 1 capital | **(686)** | **-** | - | - | (878) | (77) | |
| Of which: in respect of the efficiency plan | **(686)** | **-** | - | - | (762) | - | |
| Of which: in respect of wage tax | **-** | **-** | - | - | (116) | (77) | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| Supervisory adjustments to common equity Tier I capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | **-** | | - | | - | | |
| Deductions applicable to common equity Tier I capital because the additional Tier I capital and Tier 2 capital are insufficient to cover the deductions | **-** | | - | | - | | |
| Total supervisory adjustments and deductions in common equity Tier I capital | **(642)** | **11** | 29 | 19 | (725) | 24 | |
| Common equity Tier I capital | **36,245** | | 34,654 | | 35,045 | | |
| **Additional Tier I capital** | | | | | | | |
| **Additional Tier I capital – instruments** | | | | | | | |
| Additional Tier I share capital instruments issued by the banking corporation, and premium on such instruments | **-** | | - | | - | | |
| Of which: classified as equity in accordance with the Public Reporting Directives | **-** | | - | | - | | |
| Of which: classified as a liability in accordance with the Public Reporting Directives | **-** | | - | | - | | |
| Additional Tier I capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period | **1,221** | | 1,465 | | 1,465 | | 11B |
| Additional Tier I capital instruments issued by subsidiaries of the banking corporation and held by third-party investors | **-** | | - | | - | | |
| Of which: additional Tier I capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from additional Tier I capital | **-** | | - | | - | | |
| Additional Tier I capital before deductions | **1,221** | | 1,465 | | 1,465 | | |
| **Additional Tier I capital – deductions** | | | | | | | |
| Own investment in capital instruments included in additional Tier I capital, held directly or indirectly (including commitments to purchase instruments under contractual agreements) | **-** | **-** | - | - | - | - | |
| Mutual cross-holdings in capital instruments included in additional Tier I capital | **-** | **-** | - | - | - | - | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation | **-** | **-** | - | - | - | - | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation | **-** | **-** | - | - | - | - | |
| Additional deductions established by the Banking Supervision Department | **-** | **-** | - | - | - | - | |
| Of which: in respect of investments in the capital of financial corporations | **-** | **-** | - | - | - | - | |
| Of which: additional deductions from Tier 1 capital | **-** | **-** | - | - | - | - | |
| Deductions from additional Tier 1 capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | **-** | | - | | - | | |
| Deductions applicable to additional Tier 1 capital because Tier 2 capital is insufficient to cover the deductions | **-** | | - | | - | | |
| Total deductions from additional Tier 1 capital | **-** | | - | | - | | |
| Additional Tier 1 capital | **1,221** | | 1,465 | | 1,465 | | |
| Tier 1 capital | **37,466** | | 36,119 | | 36,510 | | |
| **Tier 2 capital** | | | | | | | |
| **Tier 2 capital – instruments and provisions** | | | | | | | |
| Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments | **-** | | - | | - | | 11A |
| Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period | **209** | | 1,065 | | 264 | | 11B |
| Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors | **6,530** | | 8,088 | | 7,718 | | |
| Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital | **6,530** | | 8,088 | | 7,718 | | 11B |
| Collective allowances for credit losses before the effect of related tax | **3,634** | | 3,733 | | 3,627 | | 12 |
| Tier 2 capital before deductions | **10,373** | | 12,886 | | 11,609 | | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| **Tier 2 capital – deductions** | | | | | | | |
| Own investment in Tier 2 capital instruments, held directly or indirectly (including commitments to purchase instruments under contractual agreements) | **-** | **-** | - | - | - | - | |
| Mutual cross-holdings in Tier 2 capital instruments of financial corporations | **-** | **-** | - | - | - | - | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation | **-** | **-** | - | - | - | - | |
| Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation | **-** | **-** | - | - | - | - | |
| Additional deductions established by the Banking Supervision Department | **-** | **-** | - | - | - | - | |
| Of which: investments in the capital of financial corporations | **-** | **-** | - | - | - | - | |
| Of which: additional deductions from Tier 2 capital | **-** | **-** | - | - | - | - | |
| Supervisory adjustments to Tier 2 capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | **-** | | - | | - | | |
| Total supervisory adjustments to Tier 2 capital | **-** | | - | | - | | |
| Tier 2 capital | **10,373** | | 12,886 | | 11,609 | | |
| Total capital | **47,839** | | 49,005 | | 48,119 | | |
| **Weighted risk-adjusted assets** | | | | | | | |
| Total weighted risk-adjusted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | **318,712** | | 338,653 | | 317,813 | | |
| Of which: credit risk assets | **290,233** | | 311,515 | | 289,573 | | |
| Of which: market risk assets | **4,913** | | 4,047 | | 4,866 | | |
| Of which: operational risk assets | **23,566** | | 23,091 | | 23,374 | | |
| Total weighted risk-adjusted assets | **319,225** | | 339,679 | | 318,379 | | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance/ percent | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance/ percent | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance/ percent | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions/percent | | | | | | |
| **Capital ratios and capital preservation cushions** | | | | | | | |
| Common equity Tier 1 capital | **11.35%** | | 10.20% | | 11.01% | | |
| Tier 1 capital | **11.74%** | | 10.63% | | 11.47% | | |
| Total capital | **14.99%** | | 14.43% | | 15.11% | | |
| **Minimum requirements established by the Banking Supervision Department** | | | | | | | |
| The minimum required common equity Tier 1 capital ratio is 9% from January 1, 2015, to December 31, 2016, and 10% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio required by the Banking Supervision Department as at June 30, 2017, on a consolidated basis, according to data at the reporting date, is 10.2%. | **10.20%** | | 9.11% | | 9.17% | | |
| The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Banking Supervision Department as at June 30, 2017, on a consolidated basis, according to data at the reporting date, is 13.7%. | **13.70%** | | 12.61% | | 12.67% | | |
| **Amounts below the deduction threshold (before risk weighting)** | | | | | | | |
| Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold | **1,003** | | 1,000 | | 951 | | |
| Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold | **444** | | 556 | | 559 | | |

Table C-6: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

| | June 30, 2017 | | June 30, 2016 | | December 31, 2016 | | References to the supervisory balance sheet |
|---|---|---|---|---|---|---|---|
| | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | Balance | Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3 | |
| | NIS millions | | | | | | |
| Mortgage service rights (net of deferred taxes payable) | **-** | | - | | - | | |
| Deferred tax assets arising from timing differences, below the deduction threshold | **3,505** | | 3,413 | | 3,505 | | |
| **Ceiling for inclusion of provisions in Tier 2** | | | | | | | |
| Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling | **3,840** | | 3,733 | | 3,800 | | |
| Ceiling for inclusion of provision in Tier 2 under the standardized approach | **3,634** | | 3,907 | | 3,627 | | |
| Provision qualifying for inclusion in Tier 2, with reference to exposures based on the internal ratings approach, before application of the ceiling | **-** | | - | | - | | |
| Ceiling for inclusion of provision in Tier 2 based on the internal ratings approach | **-** | | - | | - | | |
| **Capital instruments not qualifying as supervisory capital, which are subject to the transitional directives** | | | | | | | |
| Present ceiling amount for instruments included in common equity Tier 1 capital subject to the transitional directives | **-** | | - | | - | | |
| Amount deducted from common equity Tier 1 capital due to the ceiling | **-** | | - | | - | | |
| Present ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives | **1,221** | | 1,465 | | 1,465 | | |
| Amount deducted from additional Tier 1 capital due to the ceiling | **1,198** | | 943 | | 936 | | |
| Present ceiling amount for instruments included in Tier 2 capital subject to the transitional directives | **7,628** | | 9,153 | | 9,153 | | |
| Amount deducted from Tier 2 capital due to the ceiling | **-** | | 462 | | - | | |

Table C-7: Composition of the supervisory balance sheet, with references to the components of supervisory capital

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 | References to components of supervisory capital |
|---|---|---|---|---|
| | Consolidated supervisory balance sheet | | | |
| | NIS millions | | | |
| **Assets** | | | | |
| Cash and deposits with banks* | **81,959** | 68,483 | 80,378 | |
| * Of which: collective allowance for credit losses included in Tier 2 capital | **(7)** | (7) | (7) | 12 |
| Securities* | **70,499** | 67,720 | 71,449 | |
| * Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation | **1,003** | 1,000 | 951 | |
| * Of which: other securities | **69,496** | 66,720 | 70,498 | |
| Securities borrowed or purchased under agreements to resell | **429** | 217 | 375 | |
| Credit to the public | **276,836** | 282,445 | 276,084 | |
| * Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold | **302** | 421 | 421 | |
| Allowance for credit losses* | **(3,887)** | (4,174) | (4,127) | |
| * Of which: collective allowance for credit losses included in Tier 2 capital | **(3,078)** | (3,185) | (3,060) | 12 |
| * Of which: allowance for credit losses not included in supervisory capital | **(809)** | (989) | (1,067) | |
| Net credit to the public | **272,949** | 278,271 | 271,957 | |
| Credit to governments | **2,243** | 2,749 | 2,561 | |
| Investment in equity-basis investees* | **158** | 149 | 153 | |
| * Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold | **142** | 135 | 138 | |
| Buildings and equipment | **3,266** | 3,311 | 3,363 | |
| Intangible assets and goodwill* | **-** | - | - | |
| * Of which: goodwill | **-** | - | - | |
| * Of which: other intangible assets | **-** | - | - | 6 |
| Assets in respect of derivative instruments | **12,766** | 14,047 | 11,916 | |
| Other assets* | **5,465** | 5,909 | 5,953 | |
| * Of which: deferred tax assets** | **3,545** | 3,459 | 3,742 | |
| ** Of which: deferred tax assets attributed to timing differences, over 10% of common equity Tier 1 capital | **-** | - | - | 13 |
| ** Of which: deferred tax assets excluding those attributed to timing differences | **40** | 46 | 45 | 8 |
| ** Of which: other deferred tax assets | **3,505** | 3,413 | 3,697 | |
| * Of which: surplus of amount funded over provision | **-** | - | - | |
| * Of which: additional other assets | **1,920** | 2,450 | 2,211 | |
| Total assets | **449,734** | 440,856 | 448,105 | |

Table C-7: Composition of the supervisory balance sheet, with references to the components of supervisory capital (continued)

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 | References to components of supervisory capital |
|---|---|---|---|---|
| | Consolidated supervisory balance sheet | | | |
| | NIS millions | | | |
| **Liabilities and capital** | | | | |
| Deposits from the public | **340,768** | 327,500 | 338,502 | |
| Deposits from banks | **4,329** | 4,213 | 4,377 | |
| Deposits from the government | **411** | 397 | 345 | |
| Securities lent or sold under agreements to repurchase | **620** | 202 | 484 | |
| Bonds and subordinated notes* | **30,736** | 36,081 | 33,560 | |
| * Of which: subordinated notes not recognized as supervisory capital | **8,167** | 8,160 | 8,073 | |
| * Of which: subordinated notes recognized as supervisory capital** | **7,960** | 10,618 | 9,447 | |
| ** Of which: eligible as supervisory capital components | **-** | - | - | 11A |
| ** Of which: ineligible as supervisory capital components and subject to transitional directives | **7,960** | 10,618 | 9,447 | 11B |
| Liabilities in respect of derivative instruments* | **13,376** | 15,076 | 12,587 | |
| * Of which: in respect of own credit risk | **12** | 4 | 18 | 10 |
| Other liabilities | **23,865** | 22,853 | 24,025 | |
| * Of which: collective allowance for credit losses included in Tier 2 capital | **549** | 541 | 560 | 12 |
| * Of which: liability in respect of deferred tax attributed to pensions | **-** | - | - | |
| * Of which: liability in respect of deferred tax on intangible assets | **-** | - | - | 7 |
| Total liabilities | **414,105** | 406,322 | 413,880 | |

Table C-7: Composition of the supervisory balance sheet, with references to the components of supervisory capital (continued)

| | June 30, 2017 | June 30, 2016 | December 31, 2016 | References to components of supervisory capital |
|---|---|---|---|---|
| | Consolidated supervisory balance sheet | | | |
| | NIS millions | | | |
| Shareholders' equity* | **35,458** | 34,342 | 34,047 | |
| * Of which: ordinary share capital and premium, retained earnings, other comprehensive loss, and capital reserves** | **35,458** | 34,342 | 34,047 | |
| ** Of which: ordinary share capital | **1,333** | 1,331 | 1,334 | 1 |
| ** Of which: premium on ordinary shares | **6,796** | 6,785 | 6,812 | 2 |
| ** Of which: retained earnings | **27,898** | 26,263 | 26,667 | 3 |
| ** Of which: accumulated other comprehensive loss*** | **(622)** | (138) | (840) | 4A |
| *** Of which: adjustments for presentation of securities available for sale at fair value | **523** | 415 | 355 | |
| *** Of which: net losses in respect of cash-flow hedges | **(1)** | (2) | (2) | 9 |
| *** Of which: net adjustments from translation, after hedge effects | **(47)** | (5) | (33) | |
| ** Of which: capital reserves from a benefit due to share-based payment transactions | **53** | 101 | 74 | 4B |
| * Of which: senior share capital | **-** | - | - | |
| ** Of which: eligible as supervisory capital components | **-** | - | - | |
| ** Of which: ineligible as supervisory capital components and subject to transitional directives | **-** | - | - | |
| * Of which: other capital instruments | **-** | - | - | |
| ** Of which: eligible as supervisory capital components | **-** | - | - | |
| ** Of which: ineligible as supervisory capital components and subject to transitional directives | **-** | - | - | |
| Non-controlling interests* | **171** | 192 | 178 | |
| * Of which: non-controlling interests attributable to common equity Tier 1 capital | **79** | 125 | 116 | 5 |
| * Of which: non-controlling interests attributable to additional Tier 1 capital | **-** | - | - | |
| * Of which: non-controlling interests attributable to Tier 2 capital | **-** | - | - | |
| * Of which: non-controlling interests not attributable to supervisory capital | **92** | 67 | 62 | |
| Total capital | **35,629** | 34,534 | 34,225 | |
| Total liabilities and capital | **449,734** | 440,856 | 448,105 | |

Table C-8: Statement of changes in components of supervisory capital

| | For the three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier I capital | Additional Tier I capital | Total Tier I capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| Balance as at March 31, 2017 | **35,731** | **1,221** | **36,952** | **10,538** | **47,490** |
| **Changes in capital components** | | | | | |
| Ordinary share capital | **(1)** | **-** | **(1)** | **-** | **(1)** |
| Premium on ordinary shares | **(16)** | **-** | **(16)** | **-** | **(16)** |
| Net profit for the period attributed to shareholders of the Bank | **812** | **-** | **812** | **-** | **812** |
| Dividends | **(307)** | **-** | **(307)** | **-** | **(307)** |
| Effect of adoption of accounting rules concerning employee benefits, included in retained earnings* | **-** | **-** | **-** | **-** | **-** |
| Unrealized profits from adjustments of securities available for sale to fair value | **28** | **-** | **28** | **-** | **28** |
| Unrealized gains in respect of cash-flow hedges | **-** | **-** | **-** | **-** | **-** |
| Translation adjustments of autonomous affiliated units overseas | **-** | **-** | **-** | **-** | **-** |
| Benefit due to share-based payment transactions | **(22)** | **-** | **(22)** | **-** | **(22)** |
| Proceeds on shares and amounts received in consideration for options to purchase shares | **-** | **-** | **-** | **-** | **-** |
| Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income* | **44** | **-** | **44** | **-** | **44** |
| Adjustments in respect of the effect of the efficiency plan | **(38)** | **-** | **(38)** | **-** | **(38)** |
| Non-controlling interests in share capital of consolidated subsidiaries* | **(2)** | **-** | **(2)** | **-** | **(2)** |
| Other | **-** | **-** | **-** | **-** | **-** |
| Total change before supervisory adjustments and deductions | **498** | **-** | **498** | **-** | **498** |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the three months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier I capital | Additional Tier I capital | Total Tier I capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| **Change due to the effect of supervisory adjustments and deductions** | | | | | |
| Goodwill and intangible assets | - | - | - | - | - |
| Deferred taxes, realization of which is based on the future profitability of the banking corporation* | **(3)** | - | **(3)** | - | **(3)** |
| Deferred tax assets attributed to timing differences (over 10% of common equity Tier I capital)* | - | - | - | - | - |
| Pension fund with defined benefits recorded in the balance sheet as an asset | - | - | - | - | - |
| Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value* | - | - | - | - | - |
| Increase in capital due to securitization exposures | - | - | - | - | - |
| Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank* | **(16)** | - | **(16)** | - | **(16)** |
| Self investment in ordinary shares (held directly or indirectly)* | **3** | - | **3** | - | **3** |
| Mutual cross-holdings in ordinary shares of financial corporations | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation | - | - | - | - | - |
| Threshold deduction – amount in excess of 15% of common equity Tier I capital | - | - | - | - | - |
| Others | - | - | - | - | - |
| Total change in supervisory adjustments and deductions | **(16)** | - | **(16)** | - | **(16)** |
| Decrease in supervisory capital instruments | - | - | - | **(174)** | **(174)** |
| Capital instruments issued | - | - | - | - | - |
| Change in collective allowances for credit losses before the effect of related tax | - | - | - | **9** | **9** |
| Other | - | - | - | - | - |
| Balance as at June 30, 2017 | **36,245** | **1,221** | **37,466** | **10,373** | **47,839** |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the three months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier 1 capital | Additional Tier 1 capital | Total Tier 1 capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| Balance as at March 31, 2016 | 33,602 | 1,465 | 35,067 | 13,012 | 48,079 |
| **Changes in capital components** | | | | | |
| Ordinary share capital | (1) | - | (1) | - | (1) |
| Premium on ordinary shares | (11) | - | (11) | - | (11) |
| Net profit for the period attributed to shareholders of the Bank | 1,117 | - | 1,117 | - | 1,117 |
| Dividends | (135) | - | (135) | - | (135) |
| Effect of adoption of accounting rules concerning employee benefits, included in retained earnings* | - | - | - | - | - |
| Unrealized profits from adjustments of securities available for sale to fair value | 43 | - | 43 | - | 43 |
| Unrealized gains in respect of cash-flow hedges | 1 | - | 1 | - | 1 |
| Translation adjustments of autonomous affiliated units overseas | 3 | - | 3 | - | 3 |
| Benefit due to share-based payment transactions | 20 | - | 20 | - | 20 |
| Proceeds on shares and amounts received in consideration for options to purchase shares | - | - | - | - | - |
| Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income* | (19) | - | (19) | - | (19) |
| Non-controlling interests in share capital of consolidated subsidiaries* | 1 | - | 1 | - | 1 |
| Other | - | - | - | - | - |
| Total change before supervisory adjustments and deductions | 1,019 | - | 1,019 | - | 1,019 |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the three months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier 1 capital | Additional Tier 1 capital | Total Tier 1 capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| **Change due to the effect of supervisory adjustments and deductions** | | | | | |
| Goodwill and intangible assets | - | - | - | - | - |
| Deferred taxes, realization of which is based on the future profitability of the banking corporation* | (1) | - | (1) | - | (1) |
| Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)* | - | - | - | - | - |
| Pension fund with defined benefits recorded in the balance sheet as an asset | - | - | - | - | - |
| Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value* | 1 | - | 1 | - | 1 |
| Increase in capital due to securitization exposures | - | - | - | - | - |
| Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank* | (2) | - | (2) | - | (2) |
| Self investment in ordinary shares (held directly or indirectly)* | (31) | - | (31) | - | (31) |
| Mutual cross-holdings in ordinary shares of financial corporations | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation | - | - | - | - | - |
| Threshold deduction – amount in excess of 15% of common equity Tier 1 capital | - | - | - | - | - |
| Others | - | - | - | - | - |
| Total change in supervisory adjustments and deductions | (33) | - | (33) | - | (33) |
| Decrease in supervisory capital instruments | - | - | - | - | - |
| Capital instruments issued | - | - | - | - | - |
| Change in collective allowances for credit losses before the effect of related tax | - | - | - | (126) | (126) |
| Other | - | - | - | - | - |
| Balance as at June 30, 2016 | 34,654 | 1,465 | 36,119 | 12,886 | 49,005 |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier 1 capital | Additional Tier 1 capital | Total Tier 1 capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| Balance as at December 31, 2016 | **35,045** | **1,465** | **36,510** | **11,609** | **48,119** |
| **Changes in capital components** | | | | | |
| Ordinary share capital | **(1)** | **-** | **(1)** | **-** | **(1)** |
| Premium on ordinary shares | **(16)** | **-** | **(16)** | **-** | **(16)** |
| Net profit for the period attributed to shareholders of the Bank | **1,579** | **-** | **1,579** | **-** | **1,579** |
| Dividends | **(348)** | **-** | **(348)** | **-** | **(348)** |
| Effect of adoption of accounting rules concerning employee benefits, included in retained earnings* | **1** | **-** | **1** | **-** | **1** |
| Unrealized profits from adjustments of securities available for sale to fair value | **168** | **-** | **168** | **-** | **168** |
| Unrealized gains in respect of cash-flow hedges | **1** | **-** | **1** | **-** | **1** |
| Translation adjustments of autonomous affiliated units overseas | **(14)** | **-** | **(14)** | **-** | **(14)** |
| Benefit due to share-based payment transactions | **(21)** | **-** | **(21)** | **-** | **(21)** |
| Proceeds on shares and amounts received in consideration for options to purchase shares | **-** | **-** | **-** | **-** | **-** |
| Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income* | **(29)** | **-** | **(29)** | **-** | **(29)** |
| Adjustments in respect of the effect of the efficiency plan | **(76)** | **-** | **(76)** | **-** | **(76)** |
| Non-controlling interests in share capital of consolidated subsidiaries* | **(37)** | **-** | **(37)** | **-** | **(37)** |
| Other | **-** | **-** | **-** | **-** | **-** |
| Total change before supervisory adjustments and deductions | **1,207** | **-** | **1,207** | **-** | **1,207** |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the six months ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier I capital | Additional Tier I capital | Total Tier I capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| **Change due to the effect of supervisory adjustments and deductions** | | | | | |
| Goodwill and intangible assets | - | - | - | - | - |
| Deferred taxes, realization of which is based on the future profitability of the banking corporation* | **5** | - | **5** | - | **5** |
| Deferred tax assets attributed to timing differences (over 10% of common equity Tier I capital)* | - | - | - | - | - |
| Pension fund with defined benefits recorded in the balance sheet as an asset | - | - | - | - | - |
| Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value* | - | - | - | - | - |
| Increase in capital due to securitization exposures | - | - | - | - | - |
| Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank* | **(1)** | - | **(1)** | - | **(1)** |
| Self investment in ordinary shares (held directly or indirectly)* | **3** | - | **3** | - | **3** |
| Mutual cross-holdings in ordinary shares of financial corporations | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation | - | - | - | - | - |
| Threshold deduction – amount in excess of 15% of common equity Tier I capital | - | - | - | - | - |
| Others | - | - | - | - | - |
| Total change in supervisory adjustments and deductions | **7** | - | **7** | - | **7** |
| Decrease in supervisory capital instruments | - | **(244)** | **(244)** | **(1,243)** | **(1,487)** |
| Capital instruments issued | - | - | - | - | - |
| Change in collective allowances for credit losses before the effect of related tax | - | - | - | **7** | **7** |
| Other | - | - | - | - | - |
| Balance as at June 30, 2017 | **36,245** | **1,221** | **37,466** | **10,373** | **47,839** |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the six months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier I capital | Additional Tier I capital | Total Tier I capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| Balance as at December 31, 2015 | 33,246 | 1,709 | 34,955 | 14,593 | 49,548 |
| **Changes in capital components** | | | | | |
| Ordinary share capital | 2 | - | 2 | - | 2 |
| Premium on ordinary shares | 20 | - | 20 | - | 20 |
| Net profit for the period attributed to shareholders of the Bank | 1,791 | - | 1,791 | - | 1,791 |
| Dividends | (252) | - | (252) | - | (252) |
| Effect of adoption of accounting rules concerning employee benefits, included in retained earnings* | 2 | - | 2 | - | 2 |
| Unrealized losses from adjustments of securities available for sale to fair value | (36) | - | (36) | - | (36) |
| Unrealized gains in respect of cash-flow hedges | 2 | - | 2 | - | 2 |
| Translation adjustments of autonomous affiliated units overseas | 3 | - | 3 | - | 3 |
| Benefit due to share-based payment transactions | (12) | - | (12) | - | (12) |
| Proceeds on shares and amounts received in consideration for options to purchase shares | - | - | - | - | - |
| Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income* | (193) | - | (193) | - | (193) |
| Non-controlling interests in share capital of consolidated subsidiaries* | (23) | - | (23) | - | (23) |
| Other | - | - | - | - | - |
| Total change before supervisory adjustments and deductions | 1,304 | - | 1,304 | - | 1,304 |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the six months ended June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier 1 capital | Additional Tier 1 capital | Total Tier 1 capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| **Change due to the effect of supervisory adjustments and deductions** | | | | | |
| Goodwill and intangible assets | - | - | - | - | - |
| Deferred taxes, realization of which is based on the future profitability of the banking corporation* | 9 | - | 9 | - | 9 |
| Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)* | (89) | - | (89) | - | (89) |
| Pension fund with defined benefits recorded in the balance sheet as an asset | - | - | - | - | - |
| Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value* | 1 | - | 1 | - | 1 |
| Increase in capital due to securitization exposures | - | - | - | - | - |
| Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank* | (5) | - | (5) | - | (5) |
| Self investment in ordinary shares (held directly or indirectly)* | (20) | - | (20) | - | (20) |
| Mutual cross-holdings in ordinary shares of financial corporations | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation | - | - | - | - | - |
| Threshold deduction – amount in excess of 15% of common equity Tier 1 capital | - | - | - | - | - |
| Others | - | - | - | - | - |
| Total change in supervisory adjustments and deductions | (104) | - | (104) | - | (104) |
| Decrease in supervisory capital instruments | - | (244) | (244) | (1,525) | (1,769) |
| Capital instruments issued | - | - | - | - | - |
| Change in collective allowances for credit losses before the effect of related tax | - | - | - | (182) | (182) |
| Other | - | - | - | - | - |
| Balance as at June 30, 2016 | 34,654 | 1,465 | 36,119 | 12,886 | 49,005 |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier I capital | Additional Tier I capital | Total Tier I capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| Balance as at December 31, 2015 | 33,246 | 1,709 | 34,955 | 14,593 | 49,548 |
| **Changes in capital components** | | | | | |
| Ordinary share capital | 5 | - | 5 | - | 5 |
| Premium on ordinary shares | 47 | - | 47 | - | 47 |
| Net profit for the period attributed to shareholders of the Bank | 2,628 | - | 2,628 | - | 2,628 |
| Dividends | (685) | - | (685) | - | (685) |
| Effect of adoption of accounting rules concerning employee benefits, included in retained earnings* | 2 | - | 2 | - | 2 |
| Unrealized losses from adjustments of securities available for sale to fair value | (96) | - | (96) | - | (96) |
| Unrealized gains in respect of cash-flow hedges | 2 | - | 2 | - | 2 |
| Translation adjustments of autonomous affiliated units overseas | (25) | - | (25) | - | (25) |
| Benefit due to share-based payment transactions | (39) | - | (39) | - | (39) |
| Proceeds on shares and amounts received in consideration for options to purchase shares | - | - | - | - | - |
| Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income* | (104) | - | (104) | - | (104) |
| Effect of the efficiency plan, included in other comprehensive income | (762) | - | (762) | - | (762) |
| Adjustments in respect of the effect of the efficiency plan | 762 | - | 762 | - | 762 |
| Non-controlling interests in share capital of consolidated subsidiaries* | (32) | - | (32) | - | (32) |
| Other | - | - | - | - | - |
| Total change before supervisory adjustments and deductions | 1,703 | - | 1,703 | - | 1,703 |

* After adjustments, as required in the transitional directives in Directive 299.

Table C-8: Statement of changes in components of supervisory capital (continued)

| | For the year ended December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Common equity Tier 1 capital | Additional Tier 1 capital | Total Tier 1 capital | Tier 2 capital | Total capital |
| | NIS millions | | | | |
| **Change due to the effect of supervisory adjustments and deductions** | | | | | |
| Goodwill and intangible assets | - | - | - | - | - |
| Deferred taxes, realization of which is based on the future profitability of the banking corporation* | 8 | - | 8 | - | 8 |
| Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)* | (89) | - | (89) | - | (89) |
| Pension fund with defined benefits recorded in the balance sheet as an asset | - | - | - | - | - |
| Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value* | 1 | - | 1 | - | 1 |
| Increase in capital due to securitization exposures | - | - | - | - | - |
| Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank* | 4 | - | 4 | - | 4 |
| Self investment in ordinary shares (held directly or indirectly)* | (20) | - | (20) | - | (20) |
| Mutual cross-holdings in ordinary shares of financial corporations | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation | - | - | - | - | - |
| Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation | - | - | - | - | - |
| Threshold deduction – amount in excess of 15% of common equity Tier 1 capital | - | - | - | - | - |
| Others | - | - | - | - | - |
| Total change in supervisory adjustments and deductions | (96) | - | (96) | - | (96) |
| Decrease in supervisory capital instruments | - | (244) | (244) | (2,696) | (2,940) |
| Capital instruments issued | - | - | - | - | - |
| Change in collective allowances for credit losses before the effect of related tax | - | - | - | (288) | (288) |
| Other | - | - | - | - | - |
| Balance as at December 31, 2016 | 35,045 | 1,465 | 36,510 | 11,609 | 48,119 |

* After adjustments, as required in the transitional directives in Directive 299.

The changes in the components of supervisory capital in the second quarter of 2017 resulted primarily from net profit for the period, in the amount of NIS 812 million, which was offset by dividend distribution in the amount of NIS 307 million; unrealized profits from securities available for sale, in the amount of NIS 28 million; and a decrease in supervisory capital instruments, in the amount of NIS 174 million. The changes in the first half of 2017 resulted primarily from net profit for the period, in the amount of NIS 1,579 million, which was offset by dividend distribution in the amount of NIS 348 million; unrealized profits from securities available for sale, in the amount of NIS 168 million; and a decrease in supervisory capital instruments, in the amount of NIS 1,487 million. The data include Efficiency Plan Adjustments established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel," allocated in equal parts over five years, from 2017 forward.

The changes in the components of supervisory capital in the second quarter of 2016 resulted primarily from net profit for the period, in the amount of NIS 1,117 million, which was offset by dividend distribution in the amount of NIS 135 million. The changes in the first half of 2016 resulted primarily from net profit for the period, in the amount of NIS 1,791 million, which was offset by dividend distribution in the amount of NIS 252 million, and by a decrease in supervisory capital instruments in the amount of NIS 1,769 million.

The changes in the components of supervisory capital in 2016 resulted primarily from net profit for the period, in the amount of NIS 2,628 million, which was offset by dividend distribution in the amount of NIS 685 million, and by unrealized losses from securities available for sale, in the amount of NIS 96 million; and from a decrease in supervisory capital instruments, in the amount of NIS 2,940 million. The data include Efficiency Plan Adjustments established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel," allocated in equal parts over five years, from 2017 forward.

## Capital Adequacy

### The Bank's Approach to Capital Adequacy Assessment

The Bank applies the capital measurement and adequacy directives based on the Basel 2 and 3 directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

For more extensive information regarding the implementation of the Proper Conduct of Banking Business Directives and other requirements of the Banking Supervision Department concerning capital adequacy, and for more extensive information regarding capital adequacy management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

### Capital Adequacy Target[AI]

Pursuant to the circular of the Banking Supervision Department concerning minimum capital ratios, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10%, and a minimum total capital ratio of 13.5%, beginning January 1, 2017. In addition, beginning January 1, 2015, a capital requirement was added to these minimum ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, over eight quarters, up to January 1, 2017.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Banking Supervision Department as of January 1, 2017, on a consolidated basis, based on data at the reporting date, stand at 10.2% and 13.7%, respectively.

Pursuant to a resolution of the Board of Directors of the Bank, the common equity Tier 1 capital ratio will stand at 10.75% as of December 31, 2017.

## Implementation and Effect of New Regulatory Directives Regarding Capital Measurement and Adequacy

### Improving Operational Efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (hereinafter: the "Letter"). Pursuant to the Letter, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the Letter will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio. In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The effect of the costs of the efficiency plan on capital-adequacy ratios, estimated at approximately 0.24% at the reporting date, are being allocated in equal parts over five years, from 2017 forward.

Further to the aforesaid Letter, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units (hereinafter: "real-estate efficiency").

In order to encourage the implementation of a real-estate efficiency plan, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

Pursuant to the additional letter, the term of the original Letter is extended until June 30, 2018.

### Capital Requirements in Respect of Exposures to Central Counterparties (Inception January 1, 2017)

The Banking Supervision Department issued a circular entitled, "Capital Requirements in Respect of Exposure to Central Counterparties" (hereinafter: the "Circular"). The Circular amends Proper Conduct of Banking Business Directives 203 and 204, with the aim of adjusting these directives to the recommendations of the Basel Committee, in all matters related to capital requirements in respect of exposures of banking corporations to central counterparties.

The Circular details the new guidelines that apply to exposures to central counterparties caused by OTC derivatives, transactions in marketable derivatives on the stock exchange, and securities financing transactions. The guidelines draw a distinction between unqualified central counterparties and qualified central counterparties, and set reduced capital requirements for the latter. Among other matters, the guidelines address the following types of exposures:

- Exposures of a banking corporation acting as a clearing member of a central counterparty. In general, these exposures should be assigned a risk weight of 2% (versus an exposure value of zero prior to the amendment).

- Exposures of a banking corporation to a client active on the stock exchange. Pursuant to the amendment, the capital requirement for such exposures should be calculated as though referring to a bilateral transaction, including an allocation of capital in respect of CVA risk.
- Exposures of a banking corporation as a client of a clearing member.
- A banking corporation's contributions to a central counterparty's default fund.
- Collateral posted by a banking corporation with a clearing member or with a central counterparty.
- Exposures to an unqualified central counterparty shall be weighted according to the relevant risk weight for the counterparty, while contributions to a default fund shall be weighted at 1,250%.

The Circular applies as of January 1, 2017.

On December 28, 2016, the Banking Supervision Department issued a letter noting that notwithstanding the foregoing, the calculation of the amount of the exposure in respect of customers active on the Maof market would continue to be based on the scenarios approach.

On July 2, 2017, the Banking Supervision Department issued a letter on the subject, "Capital Requirements in Respect of Exposure to Central Counterparties." In the letter, the Banking Supervision Department gave notice that the conditions, as noted in Appendix C to Directive 203, for the classification of the TASE Clearing House and of the Maof Clearing House as qualified central counterparties had been fulfilled. This followed various amendments of legislation and a declaration of the Israel Securities Authority on this matter, and the conclusion of the term of the transitional directives, pursuant to which the Tel Aviv Stock Exchange could be considered a qualified central counterparty until June 30, 2017.

The effect of the adoption of the Circular, at the reporting date, is immaterial.

### Measurement of Risk Exposures and Capital Requirements

The measurement of exposures to the various risks may change, according to the volume and quality of the portfolio, methodological and regulatory changes, and changes in exchange rates, among other factors, and depending on the definition of the exposure: financial reporting according to GAAP, with the necessary adjustments to the Proper Conduct of Banking Business Directives for the calculation of capital requirements; establishment of supervisory capital; or the Bank's internal exposure management needs. Risk exposures presented below are based on the rules defined for the calculation of the supervisory capital required in order to support these risks.

Table C-9: Information regarding risk-adjusted assets and regulatory capital requirements in respect of credit risk, market risk, and operational risk (as noted in Proper Conduct of Banking Business Directives 201-209)

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| | Risk-adjusted assets | Capital requirements[1] | Risk-adjusted assets | Capital requirements[1] | Risk-adjusted assets | Capital requirements[1] |
| | NIS millions | | | | | |
| **Credit risk** | | | | | | |
| Sovereign debts | **1,331** | **182** | 1,846 | 233 | 1,649 | 209 |
| Debts of public-sector entities | **2,835** | **388** | 3,258 | 411 | 2,863 | 363 |
| Debts of banking corporations | **6,152** | **843** | 5,725 | 722 | 6,357 | 805 |
| Debts of corporations | **115,758** | **15,859** | 122,328 | 15,426 | 118,620 | 15,029 |
| Debts secured by commercial real estate | **47,173** | **6,463** | 62,773 | 7,916 | 46,207 | 5,854 |
| Retail exposures to individuals | **48,635** | **6,663** | 47,231 | 5,956 | 47,005 | 5,956 |
| Loans to small businesses | **7,935** | **1,087** | 7,565 | 954 | 7,323 | 928 |
| Housing loans | **39,456** | **5,405** | 37,834 | 4,771 | 38,288 | 4,851 |
| Securitization | **87** | **12** | 96 | 12 | 96 | 12 |
| Other assets | **17,262** | **2,365** | 19,160 | 2,416 | 18,180 | 2,303 |
| CVA risk | **4,122** | **565** | 4,725 | 596 | 3,551 | 450 |
| Total in respect of credit risk | **290,746** | **39,832** | 312,541 | 39,413 | 290,139 | 36,760 |
| Market risks | **4,913** | **673** | 4,047 | 510 | 4,866 | 617 |
| Operational risk | **23,566** | **3,229** | 23,091 | 2,912 | 23,374 | 2,961 |
| Total risk-adjusted assets in respect of the various risks | **319,225** | **43,734** | 339,679 | 42,835 | 318,379 | 40,338 |
| Common equity Tier 1 capital | **36,245** | | 34,654 | | 35,045 | |
| Tier 1 capital | **37,466** | | 36,119 | | 36,510 | |
| Total capital | **47,839** | | 49,005 | | 48,119 | |
| | % | | | | | |
| Ratio of common equity Tier 1 capital to risk-adjusted assets | **11.35%** | | 10.20% | | 11.01% | |
| Ratio of Tier 1 capital to risk-adjusted assets | **11.74%** | | 10.63% | | 11.47% | |
| Ratio of total capital to risk-adjusted assets | **14.99%** | | 14.43% | | 15.11% | |
| Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department | **[2]10.20%** | | [2]9.11% | | [2]9.17% | |
| Minimum total capital ratio required by the Banking Supervision Department | **[2]13.70%** | | [2]12.61% | | [2]12.67% | |

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.7% as at June 30, 2017; 12.67% as at December 31, 2016; and 12.61% as at June 30, 2016. The following approaches are used at the Bank to calculate supervisory capital, with respect to the main risk categories: standardized approach (used for credit risks, market risks, operational risk, and securitization risk); present exposure approach (for counterparty credit risk); and calculation based on risk weights established in the Proper Conduct of Banking Business Directives (used in the calculation of other assets).

(2) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017.

Table C-10: Risk-adjusted assets by supervisory activity segment[A/]

| | June 30, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses | Institutional entities | Financial management | Activity overseas | Other | Total |
| | NIS millions | | | | | | | | | |
| **Credit risk** | | | | | | | | | | |
| Activity in Israel | **81,904** | **2,324** | **69,887** | **37,231** | **56,803** | **5,983** | **13,331** | **-** | **3,386** | **270,849** |
| Activity abroad | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **19,897** | **-** | **19,897** |
| Total credit risk assets | **81,904** | **2,324** | **69,887** | **37,231** | **56,803** | **5,983** | **13,331** | **19,897** | **3,386** | **290,746** |
| Market risk | **-** | **-** | **-** | **-** | **-** | **-** | **4,913** | **-** | **-** | **4,913** |
| Operational risk | **6,785** | **421** | **5,599** | **1,614** | **2,811** | **378** | **3,739** | **1,256** | **963** | **23,566** |
| Total risk-adjusted assets | **88,689** | **2,745** | **75,486** | **38,845** | **59,614** | **6,361** | **21,983** | **21,153** | **4,349** | **319,225** |

| | June 30, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses | Institutional entities | Financial management | Activity overseas | Other | Total |
| | NIS millions | | | | | | | | | |
| **Credit risk** | | | | | | | | | | |
| Activity in Israel | 83,180 | 3,331 | 60,094 | 37,465 | 73,080 | 3,587 | 22,314 | - | 4,297 | 287,348 |
| Activity abroad | - | - | - | - | - | - | - | 25,193 | - | 25,193 |
| Total credit risk assets | 83,180 | 3,331 | 60,094 | 37,465 | 73,080 | 3,587 | 22,314 | 25,193 | 4,297 | 312,541 |
| Market risk | - | - | - | - | - | - | 4,047 | - | - | 4,047 |
| Operational risk | 6,210 | 375 | 4,452 | 1,597 | 3,112 | 387 | 4,337 | 1,758 | 863 | 23,091 |
| Total risk-adjusted assets | 89,390 | 3,706 | 64,546 | 39,062 | 76,192 | 3,974 | 30,698 | 26,951 | 5,160 | 339,679 |

| | December 31, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses | Institutional entities | Financial management | Activity overseas | Other | Total |
| | NIS millions | | | | | | | | | |
| **Credit risk** | | | | | | | | | | |
| Activity in Israel | 83,877 | 2,567 | 62,471 | 35,795 | 54,938 | 4,599 | 19,914 | - | 3,920 | 268,081 |
| Activity abroad | - | - | - | - | - | - | - | 22,058 | - | 22,058 |
| Total credit risk assets | 83,877 | 2,567 | 62,471 | 35,795 | 54,938 | 4,599 | 19,914 | 22,058 | 3,920 | 290,139 |
| Market risk | - | - | - | - | - | - | 4,866 | - | - | 4,866 |
| Operational risk | 6,561 | 396 | 4,721 | 1,651 | 3,005 | 406 | 4,166 | 1,630 | 838 | 23,374 |
| Total risk-adjusted assets | 90,438 | 2,963 | 67,192 | 37,446 | 57,943 | 5,005 | 28,946 | 23,688 | 4,758 | 318,379 |

## Change in Risk-Weighted Assets During the Period[A]

Table C-11: Statement of changes in risk-weighted assets during the period[A]

| | **For the three months ended June 30, 2017** | | | |
|---|---|---|---|---|
| | Credit risk | Market risk | Operational risk | Total risk-adjusted assets |
| | NIS millions | | | |
| Balance as at March 31, 2017 | **290,010** | **5,174** | **23,517** | **318,701** |
| Changes in portfolio volume[1] | **1,391** | **(261)** | **49** | **1,179** |
| Changes in portfolio quality[2] | **18** | **-** | **-** | **18** |
| Changes in methodology and policy[3] | **52** | **-** | **-** | **52** |
| Sales[4] | **-** | **-** | **-** | **-** |
| Effect of changes in exchange rates | **(725)** | **-** | **-** | **(725)** |
| Balance as at June 30, 2017 | **290,746** | **4,913** | **23,566** | **319,225** |

| | For the three months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Credit risk | Market risk | Operational risk | Total risk-adjusted assets |
| | NIS millions | | | |
| Balance as at March 31, 2016 | 316,977 | 5,120 | 22,772 | 344,869 |
| Changes in portfolio volume[1] | (6,893) | (1,073) | 319 | (7,647) |
| Changes in portfolio quality[2] | 3 | - | - | 3 |
| Changes in methodology and policy[3] | 139 | - | - | 139 |
| Sales[4] | - | - | - | - |
| Effect of changes in exchange rates | 2,315 | - | - | 2,315 |
| Balance as at June 30, 2016 | 312,541 | 4,047 | 23,091 | 339,679 |

| | **For the six months ended June 30, 2017** | | | |
|---|---|---|---|---|
| | Credit risk | Market risk | Operational risk | Total risk-adjusted assets |
| | NIS millions | | | |
| Balance as at December 31, 2016 | **290,139** | **4,866** | **23,374** | **318,379** |
| Changes in portfolio volume[1] | **3,413** | **47** | **192** | **3,652** |
| Changes in portfolio quality[2] | **(61)** | **-** | **-** | **(61)** |
| Changes in methodology and policy[3] | **(84)** | **-** | **-** | **(84)** |
| Sales[4] | **(135)** | **-** | **-** | **(135)** |
| Effect of changes in exchange rates | **(2,526)** | **-** | **-** | **(2,526)** |
| Balance as at June 30, 2017 | **290,746** | **4,913** | **23,566** | **319,225** |

(1) The category "changes in portfolio volume" refers to changes in the size of the portfolio, excluding changes resulting from change in the quality of the portfolio.
(2) The category "changes in portfolio quality" mainly refers to changes in the risk weight of transactions and customers resulting from changes in credit rating or classification.
(3) The category "changes in methodology and policy" mainly refers to the effect of changes in regulatory directives and changes in methodologies.
(4) The category "sales" includes the effect of sales of loans.

Table C-11: Statement of changes in risk-weighted assets during the period[A] (continued)

| | For the six months ended June 30, 2016 | | | |
|---|---|---|---|---|
| | Credit risk | Market risk | Operational risk | Total risk-adjusted assets |
| | NIS millions | | | |
| Balance as at December 31, 2015 | 317,891 | 4,562 | 22,671 | 345,124 |
| Changes in portfolio volume[1] | (5,729) | (515) | 420 | (5,824) |
| Changes in portfolio quality[2] | (193) | - | - | (193) |
| Changes in methodology and policy[3] | 202 | - | - | 202 |
| Sales[4] | - | - | - | - |
| Effect of changes in exchange rates | 370 | - | - | 370 |
| Balance as at June 30, 2016 | 312,541 | 4,047 | 23,091 | 339,679 |

| | For the year ended December 31, 2016 | | | |
|---|---|---|---|---|
| | Credit risk | Market risk | Operational risk | Total risk-adjusted assets |
| | NIS millions | | | |
| Balance as at December 31, 2015 | 317,891 | 4,562 | 22,671 | 345,124 |
| Changes in portfolio volume[1] | (13,647) | 304 | 703 | (12,640) |
| Changes in portfolio quality[2] | (10,006) | - | - | (10,006) |
| Changes in methodology and policy[3] | (41) | - | - | (41) |
| Sales[4] | (3,315) | - | - | (3,315) |
| Effect of changes in exchange rates | (743) | - | - | (743) |
| Balance as at December 31, 2016 | 290,139 | 4,866 | 23,374 | 318,379 |

(1) The category "changes in portfolio volume" refers to changes in the size of the portfolio, excluding changes resulting from change in the quality of the portfolio.
(2) The category "changes in portfolio quality" mainly refers to changes in the risk weight of transactions and customers resulting from changes in credit rating or classification.
(3) The category "changes in methodology and policy" mainly refers to the effect of changes in regulatory directives and changes in methodologies.
(4) The category "sales" includes the effect of sales of loans.

## Leverage Ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which will serve as a reliable measurement complementary to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

Table C-12: Leverage ratio

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | NIS millions | | |
| **Consolidated data** | | | |
| Tier I capital | ***37,466** | 36,119 | *36,510 |
| Total exposures | ***509,345** | 496,608 | *503,875 |
| | % | | |
| Leverage ratio | **7.36%** | 7.27% | 7.25% |
| Minimum leverage ratio required by the Banking Supervision Department | **6.00%** | 6.00% | 6.00% |

* These data also include Efficiency Plan Adjustments, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel." The effect of the costs of the efficiency plan on the leverage ratio at the date of the report, estimated at approximately 0.14%, is allocated in equal parts over five years, from 2017 forward.

Table C-13: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | NIS millions | | |
| Total consolidated assets as per published financial statements | **449,734** | 440,856 | 448,105 |
| Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation | **-** | - | - |
| Adjustment for fiduciary assets recognized on the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement | **-** | - | - |
| Adjustments for derivative financial instruments(1) | **(925)** | (7,415) | (5,400) |
| Adjustments for securities financing transactions | **-** | - | - |
| Adjustments for off-balance sheet items | **57,667** | 60,009 | 58,390 |
| Other adjustments | **2,869** | 3,158 | 2,780 |
| Exposure for the purposes of the leverage ratio | **509,345** | 496,608 | 503,875 |

(1) The data as at June 30, 2017, include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table C-14: Leverage ratio disclosure

| | **June 30, 2017** | June 30, 2016 | December 31, 2016 |
|---|---|---|---|
| | NIS millions/percent | | |
| **On-balance sheet exposures** | | | |
| On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral) | **439,440** | 429,770 | 438,614 |
| Asset amounts deducted in determining Tier 1 capital | **(32)** | (28) | (27) |
| Total on-balance sheet exposures (excluding derivatives and securities financing transactions) | **439,408** | 429,742 | 438,587 |
| **Derivative exposures** | | | |
| Replacement cost associated with all derivatives transactions[1] | **7,535** | 3,751 | 2,774 |
| Add-on amounts for potential future exposure associated with all derivatives transactions | **5,887** | 5,480 | 5,194 |
| Gross-up for collateral provided in respect of derivatives deducted from balance sheet assets pursuant to the Public Reporting Directives | **-** | - | - |
| Deductions of receivables assets for cash variation margin provided in derivatives transactions | **(1,703)** | (2,726) | (1,580) |
| Exempted central counterparty leg of client-cleared trade exposures | **-** | - | - |
| Adjusted effective notional amount of written credit derivatives | **122** | 135 | 135 |
| Adjusted effective notional offsets and add-on deductions for written credit derivatives | **-** | - | - |
| Total derivative exposures | **11,841** | 6,640 | 6,523 |
| **Securities financing transaction exposures** | | | |
| Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions | **429** | 217 | 375 |
| Netted amounts of cash payables and cash receivables of gross securities financing transaction assets | **-** | - | - |
| Central counterparty credit risk exposure for securities financing transaction assets | **-** | - | - |
| Agent transaction exposures | **-** | - | - |
| Total securities financing transaction exposures | **429** | 217 | 375 |
| **Other off-balance sheet exposures** | | | |
| Off-balance sheet exposure at gross notional amount | **171,082** | 178,239 | 170,005 |
| Adjustments for conversion to credit equivalent amounts | **(113,415)** | (118,230) | (111,615) |
| Off-balance sheet items | **57,667** | 60,009 | 58,390 |
| **Capital and total exposures** | | | |
| Tier 1 capital | **37,466** | 36,119 | 36,510 |
| Total exposures | **509,345** | 496,608 | 503,875 |
| **Leverage ratio** | | | |
| Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218 | **7.36%** | 7.27% | 7.25% |

(1) The data as at June 30, 2017, include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

## D. Risk Assessment and Management

The Bank's activity is accompanied by the following financial risks: credit risks (including concentration risk and counterparty risk), market risks (including exchange-rate risk and interest-rate risk in the banking book), investment risk (share and credit spread risk), and liquidity risk (including refinancing risk). Other non-financial risks are mainly compliance risk, legal risk, and operational risks. Additional risks to which the Bank is exposed are handled directly as part of the management of its business: reputational risk, competitive risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk.

The Bank has defined the following risks as material risks: credit risk, market risk, investment risk, compliance risk, operational risk, concentration risk, counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic risk, and regulatory and legislative risk.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. Risks are managed separately by each subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. The Bank manages the various risks, using hedges for some risks, as detailed below. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary.

The structure of the Board of Management committees and subcommittees was changed in February 2017, in order to improve work processes and the Board of Management committees' supervision of risks and risk management. This change has no material effect on the manner in which risks are managed.

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at March 31, 2017.

### Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

For more extensive information regarding credit risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; and the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

## Credit Risk Exposures

Table D-1: Segmentation of credit-risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses[1]

| | June 30, 2017 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns | Public sector | Banking corporations | Corporations | Secured by commercial real estate | Retail to individuals | Small businesses | Housing loans | Securitization | Others | Gross credit exposure[2] | Average gross credit exposure |
| | NIS millions | | | | | | | | | | | |
| Loans[3] | **74,942** | **3,573** | **7,723** | **88,559** | **34,689** | **65,531** | **10,664** | **70,888** | **-** | **-** | **356,569** | **353,427** |
| Bonds[4] | **49,917** | **631** | **6,154** | **3,137** | **-** | **-** | **-** | **-** | **-** | **-** | **59,839** | **61,415** |
| Derivatives[5] | **179** | **1,828** | **3,228** | **9,080** | **148** | **28** | **12** | **-** | **-** | **-** | **14,503** | **12,558** |
| Other off-balance sheet exposures | **139** | **1,548** | **989** | **58,551** | **58,405** | **43,942** | **4,132** | **2,904** | **175** | **-** | **170,785** | **169,723** |
| Other assets[6] | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **14,798** | **14,798** | **14,991** |
| Total | **125,177** | **7,580** | **18,094** | **159,327** | **93,242** | **109,501** | **14,808** | **73,792** | **175** | **14,798** | **616,494** | **612,114** |

| | June 30, 2016 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns | Public sector | Banking corporations | Corporations | Secured by commercial real estate | Retail to individuals | Small businesses | Housing loans | Securitization | Others | Gross credit exposure[2] | Average gross credit exposure |
| | NIS millions | | | | | | | | | | | |
| Loans[3] | 61,423 | 4,566 | 7,325 | 97,778 | 36,923 | 62,390 | 10,026 | 67,888 | - | - | 348,319 | 346,115 |
| Bonds[4] | 46,327 | 1,063 | 4,445 | 4,285 | 163 | - | - | - | - | - | 56,283 | 55,052 |
| Derivatives[5] | 32 | 731 | 2,559 | 6,138 | 219 | 161 | 25 | 8 | - | - | 9,873 | 9,933 |
| Other off-balance sheet exposures | 300 | 2,082 | 2,157 | 58,804 | 56,490 | 51,264 | 3,957 | 2,559 | 192 | - | 177,805 | 184,115 |
| Other assets[6] | - | - | - | - | - | - | - | - | - | 15,647 | 15,647 | 15,861 |
| Total | 108,082 | 8,442 | 16,486 | 167,005 | 93,795 | 113,815 | 14,008 | 70,455 | 192 | 15,647 | 607,927 | 611,076 |

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data as at June 30, 2017 include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D-1: Segmentation of credit-risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses[1] (continued)

| | December 31, 2016 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns | Public sector | Banking corporations | Corporations | Secured by commercial real estate | Retail to individuals | Small businesses | Housing loans | Securitization | Others | Gross credit exposure[2] | Average gross credit exposure |
| | NIS millions | | | | | | | | | | | |
| Loans[3] | 72,899 | 3,293 | 8,716 | 93,050 | 34,552 | 63,570 | 9,932 | 68,640 | - | - | 354,652 | 348,838 |
| Bonds[4] | 49,930 | 981 | 5,576 | 3,678 | 38 | - | - | - | - | - | 60,203 | 56,175 |
| Derivatives[5] | 79 | 1,082 | 3,230 | 4,440 | 183 | 29 | 18 | 7 | - | - | 9,068 | 9,706 |
| Other off-balance sheet exposures | 163 | 2,159 | 2,134 | 60,336 | 56,287 | 42,440 | 3,713 | 2,235 | 192 | - | 169,659 | 178,506 |
| Other assets[6] | - | - | - | - | - | - | - | - | - | 15,316 | 15,316 | 15,668 |
| Total | 123,071 | 7,515 | 19,656 | 161,504 | 91,060 | 106,039 | 13,663 | 70,882 | 192 | 15,316 | 608,898 | 608,893 |

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data as at June 30, 2017 include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

### Table D-2: Total principal exposures to foreign countries[(1)]

Balance sheet exposure to foreign countries as at June 30, 2017 amounted to NIS 53.4 billion, compared with NIS 60.7 billion at the end of 2016.

Off-balance sheet exposure to foreign countries as at June 30, 2017 amounted to NIS 26.2 billion, compared with NIS 26.3 billion at the end of 2016.

The Bank operates in accordance with an ordered policy that sets limits and terms for the exposure to foreign countries.

| | **June 30, 2017** | | December 31, 2016 | |
|---|---|---|---|---|
| | Total balance sheet exposure[(2)] | Total off-balance sheet exposure[(2)(3)(4)] | Total balance sheet exposure[(2)] | Total off-balance sheet exposure[(2)(3)(4)] |
| | NIS millions | | | |
| **Country** | | | | |
| United States | **23,449** | **7,680** | 27,079 | 7,836 |
| Europe* | **16,956** | **15,947** | 19,340 | 15,345 |
| Others | **13,019** | **2,615** | 14,252 | 3,119 |
| Total exposures to foreign countries | **53,424** | **26,242** | 60,671 | 26,300 |
| Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain) | **256** | **345** | 350 | 387 |
| Of which: total exposure to LDCs | **1,560** | **810** | 2,009 | 1,073 |

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.

Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

* Information regarding total exposures to foreign countries and exposures to countries total exposure to each of which constitutes more than 1% of total balance sheet assets or 20% of capital, whichever is lower.

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

(2) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the indebtedness of a borrower and of a group of borrowers.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.

(4) The balance of the off-balance sheet exposure to foreign countries includes a total of NIS 13,889 million in respect of the acquisition of insurance for the portfolio of Sale Law guarantees from international reinsurers (December 31, 2016: NIS 13,430 million).

Table D-3: Segmentation of the portfolio by term to maturity and by principal type of credit exposure[1]

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Up to one year | 1 year to 5 years | Over 5 years | Other | Effect of netting agreements | Gross credit exposure[2] |
| | NIS millions | | | | | |
| Loans[3] | **170,450** | **77,230** | **108,889** | **-** | **-** | **356,569** |
| Bonds[4] | **23,512** | **28,959** | **7,368** | **-** | **-** | **59,839** |
| Derivatives[5] | **10,915** | **8,243** | **6,746** | **-** | **(11,401)** | **14,503** |
| Other off-balance sheet exposures | **35,890** | **129,303** | **5,592** | **-** | **-** | **170,785** |
| Other assets[6] | **2,893** | **-** | **-** | **11,905** | **-** | **14,798** |
| Total | **243,660** | **243,735** | **128,595** | **11,905** | **(11,401)** | **616,494** |

| | June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Up to one year | 1 year to 5 years | Over 5 years | Other | Effect of netting agreements | Gross credit exposure[2] |
| | NIS millions | | | | | |
| Loans[3] | 164,305 | 80,195 | 103,819 | - | - | 348,319 |
| Bonds[4] | 19,258 | 24,676 | 12,349 | - | - | 56,283 |
| Derivatives[5] | 6,233 | 8,353 | 8,618 | - | (13,331) | 9,873 |
| Other off-balance sheet exposures | 34,614 | 139,351 | 3,840 | - | - | 177,805 |
| Other assets[6] | 2,421 | - | - | 13,226 | - | 15,647 |
| Total | 226,831 | 252,575 | 128,626 | 13,226 | (13,331) | 607,927 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Up to one year | 1 year to 5 years | Over 5 years | Other | Effect of netting agreements | Gross credit exposure[2] |
| | NIS millions | | | | | |
| Loans[3] | 172,576 | 76,632 | 105,444 | - | - | 354,652 |
| Bonds[4] | 25,889 | 24,008 | 10,306 | - | - | 60,203 |
| Derivatives[5] | 6,032 | 7,781 | 6,929 | - | (11,674) | 9,068 |
| Other off-balance sheet exposures | 39,310 | 126,281 | 4,068 | - | - | 169,659 |
| Other assets[6] | 2,738 | - | - | 12,578 | - | 15,316 |
| Total | 246,545 | 234,702 | 126,747 | 12,578 | (11,674) | 608,898 |

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data as at June 30, 2017 include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D-4: Amount of problematic credit risk, impaired credit risk, individual and collective allowances and provision for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector and by principal type of counterparty

| | **June 30, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | Total credit risk | Of which: problematic credit risk | Rate of problematic risk | Impaired credit risk | Provision (income) for credit losses | Net charge-offs |
| | NIS millions | | % | NIS millions | | |
| **Sector** | | | | | | |
| Industry | **38,871** | **1,147** | **3.0%** | **380** | **20** | **22** |
| Construction and real estate - construction | **58,528** | **1,310** | **2.2%** | **747** | **(29)** | **8** |
| Construction and real estate - real-estate activities | **28,998** | **560** | **1.9%** | **408** | **(102)** | **(38)** |
| Commerce | **39,490** | **1,602** | **4.1%** | **401** | **145** | **301** |
| Financial services | **40,003** | **302** | **0.8%** | **62** | **(122)** | **(73)** |
| Private individuals - housing loans | **66,428** | **578** | **0.9%** | **-** | **(5)** | **21** |
| Private individuals - other | **88,000** | **1,092** | **1.2%** | **773** | **303** | **250** |
| Other sectors | **69,912** | **2,200** | **3.1%** | **946** | **64** | **28** |
| Total public | **430,230** | **8,791** | **2.0%** | **3,717** | **274** | **519** |
| Total banks | **37,757** | **-** | **0.0%** | **-** | **-** | **-** |
| Total governments | **60,832** | **-** | **0.0%** | **-** | **-** | **-** |
| Total | **528,819** | **8,791** | **1.7%** | **3,717** | **274** | **519** |

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total credit risk | Of which: problematic credit risk | Rate of problematic risk | Impaired credit risk | Provision (income) for credit losses | Net charge-offs | Allowance for credit losses |
| | NIS millions | | % | NIS millions | | | |
| **Sector** | | | | | | | |
| Industry | 40,943 | 1,509 | 3.7% | 601 | (140) | (12) | 395 |
| Construction and real estate - construction | 56,737 | 1,266 | 2.2% | 740 | (213) | (172) | 604 |
| Construction and real estate - real-estate activities | 30,746 | 610 | 2.0% | 445 | (257) | (132) | 460 |
| Commerce | 40,482 | 1,993 | 4.9% | 654 | 654 | 654 | 654 |
| Financial services | 38,592 | 531 | 1.4% | 253 | (15) | (19) | 259 |
| Private individuals - housing loans | 63,851 | 615 | 1.0% | - | (5) | 21 | 366 |
| Private individuals - other | 85,571 | 1,089 | 1.3% | 752 | 482 | 386 | 939 |
| Other sectors | 69,839 | 1,546 | 2.2% | 1,150 | (241) | (183) | 1,127 |
| Total public | 426,761 | 9,159 | 2.1% | 4,595 | 265 | 543 | 4,804 |
| Total banks | 45,484 | - | 0.0% | - | 1 | - | 4 |
| Total governments | 62,278 | - | 0.0% | - | 3 | - | 3 |
| Total | 534,523 | 9,159 | 1.7% | 4,595 | 269 | 543 | 4,811 |

Table D-5: Change in allowance for credit losses

| | **For the three months ended June 30, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Housing | Other private | Total | | |
| | NIS millions | | | | | |
| Allowance for credit losses at beginning of year | **3,499** | **366** | **939** | **4,804** | **7** | **4,811** |
| Provision for credit losses[1] | **(24)** | **(5)** | **303** | **274** | **-** | **274** |
| Charge-offs | **(617)** | **(22)** | **(410)** | **(1,049)** | **-** | **(1,049)** |
| Recoveries of debts charged off in previous years | **369** | **1** | **160** | **530** | **-** | **530** |
| Net charge-offs | **(248)** | **(21)** | **(250)** | **(519)** | **-** | **(519)** |
| Adjustments from translation of financial statements | **-** | **-** | **-** | **-** | **-** | **-** |
| Other | **-** | **-** | **-** | **-** | **-** | **-** |
| Allowance for credit losses as at June 30, 2017[2] (unaudited) | **3,227** | **340** | **992** | **4,559** | **7** | **4,566** |
| (1) Of which: in respect of off-balance sheet credit instruments | **(17)** | **-** | **12** | **(5)** | **-** | **(5)** |
| (2) Of which: in respect of off-balance sheet credit instruments | **609** | **-** | **63** | **672** | **-** | **672** |

| | For the three months ended June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Housing | Other private | Total | | |
| | NIS millions | | | | | |
| Allowance for credit losses at beginning of year | 3,847 | 392 | 844 | 5,083 | 3 | 5,086 |
| Provision for credit losses[1] | (318) | (9) | 241 | (86) | 4 | (82) |
| Charge-offs | (319) | - | (354) | (673) | - | (673) |
| Recoveries of debts charged off in previous years | 316 | - | 160 | 476 | - | 476 |
| Net charge-offs | (3) | - | (194) | (197) | - | (197) |
| Adjustments from translation of financial statements | - | - | - | - | - | - |
| Allowance for credit losses as at June 30, 2016[2] (unaudited) | 3,526 | 383 | 891 | 4,800 | 7 | 4,807 |
| (1) Of which: in respect of off-balance sheet credit instruments | (48) | - | 5 | (43) | - | (43) |
| (2) Of which: in respect of off-balance sheet credit instruments | 568 | - | 58 | 626 | - | 626 |

## Additional Information Regarding Exposures to Credit Risk[A]

### Construction and Real Estate[A]

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 88 billion as at June 30, 2017.

Table D-6: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal areas of activity[A]

| | **Balance as at June 30, 2017** | | | Balance as at December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk |
| | NIS millions | | | | | |
| Construction for commerce and services | **2,795** | **830** | **3,625** | 3,008 | 1,150 | 4,158 |
| Construction for industry | **521** | **151** | **672** | 489 | 169 | 658 |
| Housing construction | **11,894** | ***30,059** | **41,953** | 10,857 | *29,028 | 39,885 |
| Yield-generating properties | **20,820** | **5,707** | **26,527** | 22,265 | 5,248 | 27,513 |
| Other | **8,361** | **6,388** | **14,749** | 8,365 | 6,904 | 15,269 |
| Total construction and real-estate sectors | **44,391** | **43,135** | **87,526** | 44,984 | 42,499 | 87,483 |

* Includes off-balance sheet credit risk in the amount of approximately NIS 13,889 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2016: NIS 13,430 million).

### Credit Risk in Respect of Exposures to Borrowers and to Groups of Borrowers[A]

Table D-7: Details of balances of balance sheet credit and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy[A]

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | | NIS millions | | |
| **Economic sector** | | | | |
| Industry | **2** | **205** | **4,683** | **4,888** |
| Construction and real estate - construction | **1** | **178** | **1,025** | **1,203** |
| Construction and real estate - real-estate activities | **1** | **948** | **399** | **1,347** |
| Electricity and water supply | **1** | **1,888** | **1,219** | **3,107** |
| Hotels, hospitality, and food services | **1** | **992** | **210** | **1,202** |
| Financial services | **4** | **4,817** | **2,969** | **7,786** |
| Total | **10** | **9,028** | **10,505** | **19,533** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | | NIS millions | | |
| **Economic sector** | | | | |
| Industry | 3 | 872 | 5,800 | 6,672 |
| Construction and real estate - construction | 1 | 136 | 1,438 | 1,574 |
| Construction and real estate - real-estate activities | 2 | 1,632 | 1,091 | 2,723 |
| Electricity and water supply | 1 | 673 | 1,968 | 2,641 |
| Financial services | 4 | 5,262 | 2,152 | 7,414 |
| Total | 11 | 8,575 | 12,449 | 21,024 |

Table D-8: Balances of balance sheet credit and off-balance sheet credit risk to the six largest borrowers, by sector of the economy[A]

| | June 30, 2017 | | |
|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | NIS millions | | |
| **Economic sector** | | | |
| Industry | **58** | **3,246** | **3,304** |
| Electricity and water supply | **1,888** | **1,219** | **3,107** |
| Financial services | **2,187** | **891** | **3,078** |
| Financial services | **1,329** | **659** | **1,988** |
| Industry | **147** | **1,437** | **1,584** |
| Financial services | **168** | **1,255** | **1,423** |
| Total | **5,777** | **8,707** | **14,484** |

| | December 31, 2016 | | |
|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | NIS millions | | |
| **Economic sector** | | | |
| Industry | 150 | 3,518 | 3,668 |
| Financial services | 2,787 | 429 | 3,216 |
| Electricity and water supply | 673 | 1,968 | 2,641 |
| Financial services | 927 | 717 | 1,644 |
| Construction and real estate - construction | 136 | 1,438 | 1,574 |
| Industry | - | 1,519 | 1,519 |
| Total | 4,673 | 9,589 | 14,262 |

### Credit Risk in Respect of Exposure to Borrower Groups

As at June 30, 2017, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313). For more extensive information, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

## Credit to Private Individuals (Excluding Housing)[A/]

Table D-9: Balance of credit to private individuals in Israel[A/]

| | Balance as at | | Change | | Balance as at |
|---|---|---|---|---|---|
| | **June 30, 2017** | December 31, 2016 | | | March 31, 2017* |
| | NIS millions | | | % | NIS millions |
| **Balance sheet** | | | | | |
| Negative balance in current accounts | **3,612** | 3,683 | (71) | (1.93%) | 3,589 |
| Loans | **38,682** | 37,573 | 1,109 | 2.95% | 37,951 |
| Debtors in respect of credit-card activity | **12,636** | 12,203 | 433 | 3.55% | 12,715 |
| Total balance sheet credit risk | **54,930** | 53,459 | 1,471 | 2.75% | 54,255 |
| **Off-balance sheet** | | | | | |
| Off-balance sheet credit risk | **32,153** | 30,597 | 1,556 | 5.09% | 31,799 |
| Total credit risk | **87,083** | 84,056 | 3,027 | 3.60% | 86,054 |

* Restated.

The balance of loans to private individuals in Israel increased by 2.95% in the first half of 2017. Total balance sheet credit risk increased by 2.75% in the first half of 2017, compared with an increase of 3.15% in 2016.

The upward trend in the level of risk in the portfolio of credit to private individuals continued in the first half of 2017, and was reflected in an additional increase in the rate of net charge-offs and in the rate of the allowance for credit losses. However, the rate of problematic credit risk and the rate of impaired credit risk are lower compared with the data for December 2016.

The balances of credit risk to private individuals include balances in respect of the activity of Isracard and Poalim Express, which are primarily engaged in the issuance and clearing of credit cards. Isracard is also active in the area of credit, but its share of the total loan portfolio is low, constituting approximately 6% of the balance of loans in the second quarter of 2017, compared with approximately 5.5% in December 2016.

Table D-10: Information regarding problematic debts in respect of private individuals in Israel[A/]

| | Balance as at | | Change | Percentage of total balance sheet credit risk as at | |
|---|---|---|---|---|---|
| | **June 30, 2017** | December 31, 2016 | | **June 30, 2017** | December 31, 2016 |
| | NIS millions | | | % | |
| Problematic credit risk | **1,058** | 1,048 | 0.95% | **1.93%** | 1.96% |
| Of which: impaired credit risk | **743** | 720 | 3.19% | **1.35%** | 1.35% |
| Debts in arrears of more than 90 days | **84** | 81 | 3.70% | **0.15%** | 0.15% |
| Net charge-offs | **249** | 381 | (1)30.71% | **(1)0.91%** | 0.71% |
| Allowance for credit losses | **961** | 906 | 6.07% | **1.75%** | 1.69% |

(1) Calculated on an annualized basis.

For further details, see the section "Credit Risk" in the "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

### Risks in the Housing Loan Portfolio[A]

Table D-11: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank[A]

| | Unlinked segment | | | | CPI-linked segment | | | | Foreign-currency segment | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fixed interest rate | | Floating interest rate | | Fixed interest rate | | Floating interest rate | | Floating interest rate | | Recorded debt balance in NIS millions | Rate of change during the period |
| | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | | |
| **June 30, 2017** | **11,408** | **16.0%** | **26,405** | **36.9%** | **12,799** | **17.9%** | **20,368** | **28.5%** | **482** | **0.7%** | **71,462** | **3.2%** |
| December 31, 2016 | 10,570 | 15.3% | 25,360 | 36.6% | 12,630 | 18.2% | 20,120 | 29.1% | 574 | 0.8% | 69,254 | 3.0% |

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

Risk hedging: The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Area. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate of arrears, etc.

These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macro-economic indicators in general, and in the business environment of the industry in particular. Some events require a reexamination of policy, such as a sharp increase in the floating interest rate, steep inflation, an increase in unemployment in the Israeli economy, and a material change in housing prices.

Data are reported on a monthly basis in an Area-level risk forum headed by the Head of Retail Banking, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate. In addition, insurance arrangements are in place (life insurance and building insurance).

## Housing Credit Execution

Table D-12: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed[A]

| | For the three months ended | | | | |
|---|---|---|---|---|---|
| | **June 30, 2017** | March 31, 2017 | December 31, 2016 | September 30, 2016 | June 30, 2016 |
| **Characteristics** | | | | | |
| Financing rate over 60% | **26.6%** | 26.1% | 20.9% | 18.8% | 27.0% |
| Ratio of repayment to income greater than 40% (for acquisition and in monthly payments) | **0.0%** | 0.0% | 0.0% | 0.1% | 0.2% |
| Percentage with floating interest rates varying at a frequency of less than 5 years | **31.5%** | 30.7% | 30.2% | 31.0% | 29.9% |
| Percentage with floating rates | **57.8%** | 56.8% | 56.4% | 55.7% | 53.8% |
| Percentage of all-purpose loans | **6.2%** | 5.9% | 3.4% | 2.6% | 2.8% |
| Loans for investment purposes as a percentage of acquisition | **11.5%** | 11.3% | 13.6% | 14.1% | 15.2% |
| Principal planned for repayment after age 67 (excluding investments) | **6.4%** | 6.5% | 5.7% | 6.3% | 6.6% |
| Average loan per acquisition, in NIS thousands | **582** | 561 | 553 | 681 | 686 |
| Average original term to maturity per acquisition, in years (excluding bridge loans) | **23.9** | 23.8 | 23.6 | 23.3 | 23.3 |

Note that financing rates were calculated pursuant to Reporting Directive 876 of the Banking Supervision Department, "Report on Housing Loans."

The percentage of execution of credit with a financing rate greater than 60% increased in the second quarter of 2017, but the percentage of credit executed with payments at a rate higher than 40% of income remained at a near-zero level. In addition, the percentage of execution of all-purpose loans increased, and the upward trend in the average term to maturity per acquisition (excluding bridge loans) continued.

### Auto Loans[A]

On July 6, 2017, the Banking Supervision Department issued a letter on the subject, "The risk of credit for the motor-vehicle industry." In the letter, banking corporations were asked to perform a risk analysis concerning credit for the "motor-vehicle trading" sub-industry and consumer credit for the acquisition of motor vehicles, using various stress scenarios, among other means, and to examine the need to adjust the collective allowance for this industry. The letter also described prevalent practices for financing of the motor-vehicle industry, referring, among other matters, to the financing rate, the calculation of repayment sources, required collateral, and the extent of reliance on collateral. The Bank is performing a comprehensive examination of its exposure in this area.

For details and more extensive information, see the section "Credit" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

## Leveraged Financing[A]

Data regarding credit risks in respect of leveraged financing are presented below. The disclosure focuses on exposures in respect of leveraged borrowers/transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table D-13: The Bank's exposures to leveraged financing, by economic sector of the borrower[A]

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit balance | Off-balance sheet credit balance | Total |
| | | NIS millions | | |
| **Economic sector of the borrower** | | | | |
| Construction and real estate - construction | **2** | **733** | **-** | **733** |
| Construction and real estate - real-estate activities | **1** | **390** | **716** | **1,106** |
| Hotels, hospitality, and food services | **1** | **-** | **200** | **200** |
| Mining and quarrying | **2** | **1,399** | **129** | **1,528** |
| Motor-vehicle trading | **2** | **918** | **148** | **1,066** |
| Financial services and insurance services | **1** | **334** | **-** | **334** |
| Industry | **3** | **618** | **-** | **618** |
| Total | **12** | **4,392** | **1,193** | **5,585** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit balance | Off-balance sheet credit balance | Total |
| | | NIS millions | | |
| **Economic sector of the borrower** | | | | |
| Construction and real estate - construction | 1 | 781 | - | 781 |
| Construction and real estate - real-estate activities | 2 | 688 | 981 | 1,669 |
| Hotels, hospitality, and food services | 1 | 200 | 2 | 202 |
| IMining and quarrying | 2 | 1,501 | 67 | 1,568 |
| Commerce | 2 | 957 | 221 | 1,178 |
| Financial services and insurance services | 1 | 354 | - | 354 |
| Industry | 3 | 967 | 64 | 1,031 |
| Total | 12 | 5,448 | 1,335 | 6,783 |

## Credit Risk Mitigation: Standardized Approach Disclosures

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

The following tables present details of gross credit exposure, after deducting the allowance for credit losses on an individual basis, by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

## Table D-14: Amount of gross credit exposures before credit risk mitigation

| | June 30, 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2%[(2)] | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Gross credit exposure[(1)] |
| | NIS millions | | | | | | | | | |
| Sovereigns | **119,520** | **-** | **4,185** | **-** | **67** | **-** | **1,405** | **-** | **-** | **125,177** |
| Public sector | **-** | **-** | **1,141** | **-** | **6,439** | **-** | **-** | **-** | **-** | **7,580** |
| Banking corporations | **206** | **-** | **13,971** | **-** | **3,657** | **-** | **259** | **-** | **-** | **18,093** |
| Corporations | **-** | **3,168** | **1,270** | **-** | **1,721** | **-** | **152,214** | **596** | **-** | **158,969** |
| Secured by commercial real estate | **-** | **-** | **-** | **-** | **-** | **-** | **92,560** | **489** | **-** | **93,049** |
| Retail to individuals | **-** | **-** | **-** | **-** | **-** | **108,850** | **93** | **437** | **-** | **109,380** |
| Small businesses | **-** | **-** | **-** | **-** | **-** | **14,657** | **34** | **64** | **-** | **14,755** |
| Housing loans | **-** | **-** | **-** | **27,398** | **16,552** | **23,614** | **6,027** | **201** | **-** | **73,792** |
| Securitization | **-** | **-** | **-** | **-** | **-** | **-** | **175** | **-** | **-** | **175** |
| Others | **2,990** | **-** | **-** | **-** | **-** | **-** | **7,401** | **841** | **3,566** | **14,798** |
| Total | **122,716** | **3,168** | **20,567** | **27,398** | **28,436** | **147,121** | **260,168** | **2,628** | **3,566** | **615,768** |

| | June 30, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Gross credit exposure[(1)] |
| | NIS millions | | | | | | | | |
| Sovereigns | 100,633 | 5,247 | - | 462 | - | 1,740 | - | - | 108,082 |
| Public sector | - | 1,158 | - | 7,284 | - | - | - | - | 8,442 |
| Banking corporations | 507 | 12,902 | - | 2,775 | - | 301 | - | - | 16,485 |
| Corporations | - | 1,554 | - | 2,744 | - | 160,707 | 1,203 | - | 166,208 |
| Secured by commercial real estate | - | - | - | - | - | 93,194 | 476 | - | 93,670 |
| Retail to individuals | - | - | - | - | 112,753 | 256 | 704 | - | 113,713 |
| Small businesses | - | - | - | - | 13,817 | 52 | 90 | - | 13,959 |
| Housing loans | - | - | 28,092 | 13,139 | 22,818 | 6,248 | 158 | - | 70,455 |
| Securitization | - | - | - | - | - | 192 | - | - | 192 |
| Others | 2,545 | - | - | - | - | 8,145 | 988 | 3,969 | 15,647 |
| Total | 103,685 | 20,861 | 28,092 | 26,404 | 149,388 | 270,835 | 3,619 | 3,969 | 606,853 |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

(2) The data as at June 30, 2017, include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

## Table D-14: Amount of gross credit exposures before credit risk mitigation (continued)

| | December 31, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Gross credit exposure(1) |
| | NIS millions | | | | | | | | |
| Sovereigns | 116,840 | 4,105 | - | 329 | - | 1,796 | - | - | 123,070 |
| Public sector | - | 837 | - | 6,678 | - | - | - | - | 7,515 |
| Banking corporations | 302 | 16,006 | - | 3,064 | - | 284 | - | - | 19,656 |
| Corporations | - | 1,177 | - | 2,633 | - | 156,133 | 909 | - | 160,852 |
| Secured by commercial real estate | - | - | - | - | - | 90,386 | 481 | - | 90,867 |
| Retail to individuals | - | - | - | - | 105,391 | 105 | 437 | - | 105,933 |
| Small businesses | - | - | - | - | 13,505 | 41 | 58 | - | 13,604 |
| Housing loans | - | - | 27,415 | 14,714 | 22,729 | 5,819 | 205 | - | 70,882 |
| Securitization | - | - | - | - | - | 192 | - | - | 192 |
| Others | 2,880 | - | - | - | - | 7,760 | 923 | 3,753 | 15,316 |
| Total | 120,022 | 22,125 | 27,415 | 27,418 | 141,625 | 262,516 | 3,013 | 3,753 | 607,887 |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

## Table D-15: Amount of net credit exposures after credit risk mitigation

| | **June 30, 2017** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2%(2) | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Net credit exposure(1) | Net credit exposure after conversion to credit |
| | NIS millions | | | | | | | | | | |
| Sovereigns | **119,440** | **-** | **4,185** | **-** | **67** | **-** | **474** | **-** | **-** | **124,166** | **124,096** |
| Public sector | **2,501** | **-** | **1,141** | **-** | **6,349** | **-** | **-** | **-** | **-** | **9,991** | **8,619** |
| Banking corporations | **206** | **-** | **16,920** | **-** | **14,801** | **-** | **175** | **-** | **-** | **32,102** | **22,576** |
| Corporations | **-** | **3,168** | **25,272** | **-** | **7,298** | **-** | **146,197** | **592** | **-** | **182,527** | **130,381** |
| Secured by commercial real estate | **-** | **-** | **-** | **-** | **-** | **-** | **61,367** | **485** | **-** | **61,852** | **46,999** |
| Retail to individuals | **-** | **-** | **-** | **-** | **-** | **93,206** | **93** | **435** | **-** | **93,734** | **64,382** |
| Small businesses | **-** | **-** | **-** | **-** | **-** | **13,233** | **33** | **64** | **-** | **13,330** | **10,507** |
| Housing loans | **-** | **-** | **-** | **27,398** | **16,552** | **23,614** | **6,027** | **201** | **-** | **73,792** | **71,269** |
| Securitization | **-** | **-** | **-** | **-** | **-** | **-** | **175** | **-** | **-** | **175** | **87** |
| Others | **2,990** | **-** | **-** | **-** | **-** | **-** | **7,401** | **841** | **3,566** | **14,798** | **14,588** |
| Total | **125,137** | **3,168** | **47,518** | **27,398** | **45,067** | **130,053** | **221,942** | **2,618** | **3,566** | **606,467** | **493,504** |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) The data as at June 30, 2017, include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table D-15: Amount of net credit exposures after credit risk mitigation (continued)

| | June 30, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Net credit exposure(1) | Net credit exposure after conversion to credit |
| | NIS millions | | | | | | | | | |
| Sovereigns | 100,633 | 5,247 | - | 462 | - | 630 | - | - | 106,972 | 106,807 |
| Public sector | 2,177 | 1,158 | - | 7,386 | - | - | - | - | 10,721 | 9,382 |
| Banking corporations | 507 | 14,658 | - | 16,221 | - | 240 | - | - | 31,626 | 20,224 |
| Corporations | - | 1,552 | - | 2,567 | - | 152,746 | 1,185 | - | 158,050 | 123,917 |
| Secured by commercial real estate | - | - | - | - | - | 92,704 | 475 | - | 93,179 | 62,608 |
| Retail to individuals | - | - | - | - | 96,096 | 256 | 702 | - | 97,054 | 62,191 |
| Small businesses | - | - | - | - | 12,563 | 51 | 88 | - | 12,702 | 9,982 |
| Housing loans | - | - | 28,092 | 13,139 | 22,818 | 6,248 | 158 | - | 70,455 | 68,211 |
| Securitization | - | - | - | - | - | 192 | - | - | 192 | 96 |
| Others | 2,545 | - | - | - | - | 8,145 | 988 | 3,969 | 15,647 | 15,388 |
| Total | 105,862 | 22,615 | 28,092 | 39,775 | 131,477 | 261,212 | 3,596 | 3,969 | 596,598 | 478,806 |

| | December 31, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Net credit exposure(1) | Net credit exposure after conversion to credit |
| | NIS millions | | | | | | | | | |
| Sovereigns | 116,840 | 4,105 | - | 329 | - | 680 | - | - | 121,954 | 121,872 |
| Public sector | 2,932 | 837 | - | 6,780 | - | - | - | - | 10,549 | 8,814 |
| Banking corporations | 302 | 17,240 | - | 15,913 | - | 182 | - | - | 33,637 | 23,146 |
| Corporations | - | 24,256 | - | 7,937 | - | 148,778 | 888 | - | 181,859 | 130,100 |
| Secured by commercial real estate | - | - | - | - | - | 60,283 | 480 | - | 60,763 | 46,046 |
| Retail to individuals | - | - | - | - | 89,207 | 105 | 436 | - | 89,748 | 62,204 |
| Small businesses | - | - | - | - | 12,104 | 39 | 56 | - | 12,199 | 9,696 |
| Housing loans | - | - | 27,415 | 14,714 | 22,729 | 5,819 | 205 | - | 70,882 | 68,952 |
| Securitization | - | - | - | - | - | 192 | - | - | 192 | 96 |
| Others | 2,880 | - | - | - | - | 7,760 | 923 | 3,753 | 15,316 | 15,085 |
| Total | 122,954 | 46,438 | 27,415 | 45,673 | 124,040 | 223,838 | 2,988 | 3,753 | 597,099 | 486,011 |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Collateral management at the Bank is described in the section, "Hedging and Risk Mitigation" in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016. Pursuant to the Basel 3 directives, under certain conditions, certain collateral, such as guarantees, credit derivatives, and financial assets held as collateral, can be deducted from risk-adjusted assets for the purpose of calculating the capital-adequacy ratio.

Table D-16: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by qualifying financial collateral, by counterparty

| | **June 30, 2017** | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross credit exposure[1] | Exposure covered by guarantees | Exposure covered by derivatives | Total amounts subtracted | Total amounts added[2] | Exposure covered by financial collateral[3] | Net credit exposure[4] |
| | NIS millions | | | | | | |
| Sovereigns | **125,177** | **(931)** | **-** | **(931)** | **-** | **(80)** | **124,166** |
| Public sector | **7,580** | **-** | **-** | **-** | **2,593** | **(182)** | **9,991** |
| Banking corporations | **18,093** | **(1,343)** | **-** | **(1,343)** | **16,034** | **(682)** | **32,102** |
| Corporations | **158,969** | **(1,927)** | **-** | **(1,927)** | **30,542** | **(5,057)** | **182,527** |
| Secured by commercial real estate | **93,049** | **(30,503)** | **-** | **(30,503)** | **-** | **(694)** | **61,852** |
| Retail to individuals | **109,380** | **(14,130)** | **-** | **(14,130)** | **-** | **(1,516)** | **93,734** |
| Small businesses | **14,755** | **(272)** | **-** | **(272)** | **-** | **(1,153)** | **13,330** |
| Housing loans | **73,792** | **-** | **-** | **-** | **-** | **-** | **73,792** |
| Securitization | **175** | **-** | **-** | **-** | **-** | **-** | **175** |
| Others | **14,798** | **-** | **-** | **-** | **-** | **-** | **14,798** |
| Total | **615,768** | **(49,106)** | **-** | **(49,106)** | **49,169** | **(9,364)** | **606,467** |

| | June 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross credit exposure[1] | Exposure covered by guarantees | Exposure covered by derivatives | Total amounts subtracted | Total amounts added[2] | Exposure covered by financial collateral[3] | Net credit exposure[4] |
| | NIS millions | | | | | | |
| Sovereigns | 108,082 | (1,110) | - | (1,110) | - | - | 106,972 |
| Public sector | 8,442 | - | - | - | 2,279 | - | 10,721 |
| Banking corporations | 16,485 | (944) | - | (944) | 16,550 | (465) | 31,626 |
| Corporations | 166,208 | (1,460) | - | (1,460) | 7 | (6,705) | 158,050 |
| Secured by commercial real estate | 93,670 | (46) | - | (46) | - | (445) | 93,179 |
| Retail to individuals | 113,713 | (15,020) | - | (15,020) | - | (1,639) | 97,054 |
| Small businesses | 13,959 | (249) | - | (249) | - | (1,008) | 12,702 |
| Housing loans | 70,455 | - | - | - | - | - | 70,455 |
| Securitization | 192 | - | - | - | - | - | 192 |
| Others | 15,647 | - | - | - | - | - | 15,647 |
| Total | 606,853 | (18,829) | - | (18,829) | 18,836 | (10,262) | 596,598 |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Table D-16: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by qualifying financial collateral, by counterparty (continued)

| | December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Gross credit exposure[(1)] | Exposure covered by guarantees | Exposure covered by derivatives | Total amounts subtracted | Total amounts added[(2)] | Exposure covered by financial collateral[(3)] | Net credit exposure[(4)] |
| | NIS millions | | | | | | |
| Sovereigns | 123,070 | (1,116) | - | (1,116) | - | - | 121,954 |
| Public sector | 7,515 | - | - | - | 3,034 | - | 10,549 |
| Banking corporations | 19,656 | (1,556) | - | (1,556) | 16,442 | (905) | 33,637 |
| Corporations | 160,852 | (1,984) | - | (1,984) | 29,387 | (6,396) | 181,859 |
| Secured by commercial real estate | 90,867 | (29,345) | - | (29,345) | - | (759) | 60,763 |
| Retail to individuals | 105,933 | (14,528) | - | (14,528) | - | (1,657) | 89,748 |
| Small businesses | 13,604 | (254) | - | (254) | - | (1,151) | 12,199 |
| Housing loans | 70,882 | - | - | - | - | - | 70,882 |
| Securitization | 192 | - | - | - | - | - | 192 |
| Others | 15,316 | - | - | - | - | - | 15,316 |
| Total | 607,887 | (48,783) | - | (48,783) | 48,863 | (10,868) | 597,099 |

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

## Credit Risks in Respect of Derivative Financial Instruments

**Counterparty risk –** The credit risk arising from transactions in derivative financial instruments is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. The market value of the transaction may be positive or negative for any of the parties to the transaction; the market value is not certain, and may change over time and according to movements in the underlying market factors.

Counterparty credit risk arising from transactions in derivative financial instruments is measured by applying the coefficients stipulated in Proper Conduct of Banking Business Directive 203 to the face value of the transactions, according to the risk weight of the counterparty. For more extensive information, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

## Table D-17: Details of credit exposures of the Bank arising from derivatives

| | **June 30, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | Interest-rate derivatives | Foreign-currency and gold derivatives | Equity derivatives[(1)] | Precious metals | Commodity derivatives | Total |
| | NIS millions | | | | | |
| Positive gross fair value | **6,932** | **4,954** | **4,822** | **7** | **5** | **16,720** |
| Add-on values | **3,500** | **4,249** | **1,415** | **1** | **19** | **9,184** |
| Effect of netting agreements | **-** | **-** | **-** | **-** | **-** | **(11,401)** |
| Eligible collateral | **-** | **-** | **-** | **-** | **-** | **(1,542)** |
| Net credit exposure | **10,432** | **9,203** | **6,237** | **8** | **24** | **12,961** |

(1) The data as at June 30, 2017, include the effects of the initial implementation of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

| | June 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Interest-rate derivatives | Foreign-currency and gold derivatives | Equity derivatives | Precious metals | Commodity derivatives | Total |
| | NIS millions | | | | | |
| Positive gross fair value | 9,690 | 3,507 | 992 | 15 | 50 | 14,254 |
| Add-on values | 3,241 | 4,730 | 924 | 4 | 51 | 8,950 |
| Effect of netting agreements | - | - | - | - | - | (13,331) |
| Eligible collateral | - | - | - | - | - | (1,199) |
| Net credit exposure | 12,931 | 8,237 | 1,916 | 19 | 101 | 8,674 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Interest-rate derivatives | Foreign-currency and gold derivatives | Equity derivatives | Precious metals | Commodity derivatives | Total |
| | NIS millions | | | | | |
| Positive gross fair value | 7,542 | 3,692 | 852 | 12 | 16 | 12,114 |
| Add-on values | 3,093 | 4,704 | 797 | 4 | 30 | 8,628 |
| Effect of netting agreements | - | - | - | - | - | (11,674) |
| Eligible collateral | - | - | - | - | - | (1,534) |
| Net credit exposure | 10,635 | 8,396 | 1,649 | 16 | 46 | 7,534 |

Table D-18: Details of face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio

| | **June 30, 2017** | | |
|---|---|---|---|
| | Face value in NIS millions | | |
| | Banking book | | Total face value of credit derivatives |
| | Protection acquired | Protection sold | |
| Credit derivatives | **50** | **122** | **172** |

| | June 30, 2016 | | |
|---|---|---|---|
| | Face value in NIS millions | | |
| | Banking book | | Total face value of credit derivatives |
| | Protection acquired | Protection sold | |
| Credit derivatives | 50 | 135 | 185 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Face value in NIS millions | | |
| | Banking book | | Total face value of credit derivatives |
| | Protection acquired | Protection sold | |
| Credit derivatives | 50 | 135 | 185 |

The Bank is not a party to CDS transactions originating in intermediary activities.

## Securitization Exposures

The volume of the Bank's exposure in respect of securitization is approximately NIS 175 million, arising from liquidity lines.

The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at June 30, 2017, amounted to NIS 175 million (approximately USD 50 million), compared with NIS 192 million (approximately USD 50 million) at the end of 2016. No withdrawals were performed on any of these lines up to June 30, 2017.

The risk weight applied to the amount of the exposure is determined according to the highest risk weight assigned to a single exposure covered by the instrument.

For additional information regarding credit risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; and the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

## Market Risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a particular portfolio, due to changes in prices, rates, spreads, and other market parameters.

The main risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves. Interest-rate exposure in the banking book and exposure to share prices and credit spreads are described in this report in separate sections.

For details and more extensive information regarding market risks and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; and the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

### Risk Estimates of Trading Activity (VaR)

Table D-19: Risk estimates of trading activity (VaR)

| | **June 30, 2017** | **Average in 2017** |
|---|---|---|
| | NIS millions | |
| Total trading in dealing rooms | **19** | **15** |

| | December 31, 2016 | Average in 2016 |
|---|---|---|
| | NIS millions | |
| Total trading in dealing rooms | 15 | 16 |

### Capital Requirements in Respect of Market Risks

The Bank is required to maintain a minimum capital ratio in respect of market risks, on the basis of a standardized model defined by the Bank of Israel. The regulatory capital adequacy is calculated for interest-rate and share risks in the areas of trading alone, as defined above, and for currency risks in the banking book and in the trading book.

Table D-20: Capital requirements in respect of market risks

| | **June 30, 2017(1)** | | | June 30, 2016(1) | | | December 31, 2016(1) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Specific risk | General risk | Total | Specific risk | General risk | Total | Specific risk | General risk | Total |
| | NIS millions | | | | | | | | |
| Interest-rate risk | **2** | **335** | **337** | 1 | 373 | 374 | 2 | 341 | 343 |
| Share risk | **7** | **7** | **14** | 6 | 6 | 12 | 7 | 7 | 14 |
| Foreign currency exchange-rate risk | **-** | **134** | **134** | - | 74 | 74 | - | 144 | 144 |
| Option risk | **-** | **188** | **188** | - | 50 | 50 | - | 116 | 116 |
| Total | **9** | **664** | **673** | 7 | 503 | 510 | 9 | 608 | 617 |

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.7% as at June 30, 2017; 12.67% as at December 31, 2016; and 12.61% as at June 30, 2016. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017.

## Operational Risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, the Compliance Officer, and Anti-Money Laundering and Terrorism Financing Prevention, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

For more extensive information regarding operational risk and the management thereof, including information-technology risk, information security and cyber risks, cloud-computing risks, emergency preparedness, and insurance, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

## Share and Credit Spread Risk: Investment Risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately). According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

For additional information regarding investment risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

## Positions in Shares in the Banking Book

Table D-21: Details of the Bank's investments in shares in the banking book

| | **June 30, 2017** | | June 30, 2016 | | December 31, 2016 | |
|---|---|---|---|---|---|---|
| | Balance sheet value and fair value | Capital requirements[1] | Balance sheet value and fair value | Capital requirements[1] | Balance sheet value and fair value | Capital requirements[1] |
| | NIS millions | | | | | |
| Investments classified into the trading portfolio | **53** | **[2] 14** | 44 | [2] 12 | 54 | [2] 14 |
| Investments classified into the available-for-sale portfolio | **2,243** | **337** | 2,358 | 327 | 2,202 | 308 |
| Total investments in shares | **2,296** | **351** | 2,402 | 339 | 2,256 | 322 |
| Of which: Traded on the stock exchange | **1,432** | | 1,544 | | 1,367 | |
| Privately held | **864** | | 858 | | 889 | |
| Unrealized gains included in supervisory capital | **304** | | 168 | | 202 | |

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.7% as at June 30, 2017; 12.67% as at December 31, 2016; and 12.61% as at June 30, 2016. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement has been added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement was implemented gradually, up to January 1, 2017.
(2) Including capital allocation with respect to specific market risk and general market risk.

For details regarding investments of the Bank, see Note 5 to the Condensed Financial Statements as at June 30, 2017.

### Interest-Rate Risk in the Banking Book

Interest-rate risk in the banking book refers to the potential effect of changes in the various interest-rate curves on the economic value of the Bank (i.e. change in the present value of assets and liabilities) and/or on net interest income (accounting income sensitivity). The risk emerges during the routine and proactive banking activity of the Bank, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of the investment portfolio. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more.

For additional information regarding interest-rate risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; and the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

Table D-22: Sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

| | **June 30, 2017** | | | **Maximum in 2017** | | **Minimum in 2017** | |
|---|---|---|---|---|---|---|---|
| | 1% increase | 1% decrease | 0.1% increase | 1% increase | 1% decrease | 1% increase | 1% decrease |
| | NIS millions | | | | | | |
| **Scenario** | | | | | | | |
| Change in CPI-linked interest rate | **(335)** | **393** | **(36)** | **(353)** | **418** | **(257)** | **315** |
| Change in unlinked interest rate: | **(71)** | **110** | **(8)** | **(127)** | **168** | **(54)** | **92** |
| Change in foreign-currency interest rates | **(29)** | **33** | **(3)** | **(31)** | **36** | **(4)** | **7** |

| | December 31, 2016 | | | Maximum in 2016 | | Minimum in 2016 | |
|---|---|---|---|---|---|---|---|
| | 1% increase | 1% decrease | 0.1% increase | 1% increase | 1% decrease | 1% increase | 1% decrease |
| | NIS millions | | | | | | |
| **Scenario** | | | | | | | |
| Change in CPI-linked interest rate | (264) | 324 | (29) | (264) | 324 | (118) | 163 |
| Change in unlinked interest rate: | (227) | 271 | (25) | (235) | 278 | (103) | 134 |
| Change in foreign-currency interest rates | (26) | 30 | (3) | 168 | (173) | (26) | 31 |

The above table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by interest-rate curves which do not take into account the credit risk spread of the counterparty, and with the use of internal models for some products. This differs from a fair-value calculation, which is based on factors including the discounting of expected cash flows by interest rates reflecting the risk levels, according to the accepted practice in financial statements, and without the use of internal models for some products.

## Top and Emerging Risks[AI]

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

For details, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016. For details regarding legal proceedings, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

## Compliance Risk*AI*

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss, or damage to its image which the corporation (the Bank) may suffer as a result of a failure to comply with compliance directives.

Compliance risk also encompasses the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority. In June 2006, the Bank decided to terminate services to banks operating within the territory of the Palestinian Authority. Following this decision, the Governor of the Bank of Israel and representatives of the Ministry of Finance requested that the Bank refrain from implementing the decision and continue to provide certain services, subject to certain restrictions set by the Bank. Further to talks on this subject between the Bank, the Bank of Israel, and the Ministry of Finance, in November 2006 the Minister of Finance granted the Bank a permit pursuant to Section 9(D) of the Prohibition on Terrorist Financing Law, the meaning of which is that the directives of the Prohibition on Terrorist Financing Law concerning the "prohibition of transactions in terrorism property" shall not apply to the transactions noted in the permit.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services.

The Bank asked to cease the provision of services to banks in the Palestinian Authority again in 2016, in light of the increasing risks involved in the provision of services to the Palestinian banks, both in the civil arena and in the criminal and regulatory arena (the prohibition of money laundering, the prohibition of terrorism financing, tax offenses, and more). State authorities requested a postponement of implementation of this move, emphasizing that the state is acting to ensure that the Bank receives the required protections in the civil, criminal, and regulatory arenas in connection with the provision of services to banks in the Palestinian Authority.

In December 2016, a group of family members of victims of terrorism filed a petition with the High Court of Justice against the Minister of Finance, the Director General of the Ministry of Finance, the Bank, and Discount Bank Ltd. In summary, the petitioners are asking the High Court of Justice to prohibit the Minister of Finance and the Ministry of Finance from making a commitment to protect and/or indemnify the Bank and Discount Bank Ltd. in the event that they are sued or prosecuted in connection with their relationships with banks in the Palestinian Authority. This petition is still pending. In May 2017, the state submitted its response to the petition to the High Court of Justice, based on the resolution of the Ministerial Committee on National Security Matters of January 15, 2017, which was attached to the response as an appendix (the "Cabinet Resolution"). In its response, the state clarified that it had been instructed in the Cabinet Resolution to grant Israeli banks, officers thereof, and employees thereof an indemnity letter with respect to expenses and payments that they may incur due to legal proceedings in connection with correspondence services that they provide to banks in the Palestinian Authority in the coming two years, which will be contingent upon commitments that the aforesaid Israeli banks shall undertake, and which will be established in the indemnity letter. The state also noted that further to the Cabinet Resolution, the Attorney General intended to consider granting immunity from prosecution in Israel to the aforesaid Israeli banks, officers thereof, or employees thereof with respect to actions that they commit in order to maintain the aforesaid correspondent relationships, in connection with specific offenses pertaining to the prohibition of money laundering and terrorism financing, for a period of up to two years, subject to conditions to be established.

Negotiations between the state authorities and the Bank regarding the formulation of the immunity and indemnity letters have been in progress for several months. Gaps between the positions of the parties still remain.

For additional information regarding compliance risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

### Legal Risk[AI]

Risk to the Group's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Group, which may cause damage to the Group's profitability. The Group has a structure of internal and external legal counsel.

For additional information regarding legal risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; Note 26 to the Annual Financial Statements for 2016; and Note 10 to the Condensed Financial Statements as at June 30, 2017.

### Reputational Risk[AI]

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies.

For additional information regarding reputational risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

### Regulatory and Legislative Risk[AI]

Regulatory risk is risk to the Group's income and/or capital arising from legislative processes and/or draft directives of various regulatory agencies that cause changes in the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

For additional information regarding regulatory and legislative risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016. For details regarding notable regulatory initiatives, see Note 16 to the Condensed Financial Statements as at June 30, 2017, and Section 3.14 of the Report of the Board of Directors and Board of Management as at June 30, 2017.

### Economic Risk[AI]

Risk factors in the economic environment are identified by the Economics Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees.

For additional information regarding economic risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

For details regarding conditions in the Israeli and global economy, see the section "Economic Review" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

### Strategic Risk[AI]

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology.

Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

For additional information regarding strategic risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

### Environmental Risk[AI]

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage.

For additional information regarding environmental risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

## E. Liquidity Risk

**Liquidity risk –** Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is defined as an inability of the Bank to repay its liabilities on schedule, including during times of stress, without damage to its routine operations within the business plan of the Bank and without incurring exceptional losses.

**Refinancing risk –** The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk. In light of the financing sources of the Bank, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Table E-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period

| | For the quarter ended June 30, 2017 | |
|---|---|---|
| | Total unweighted value* | Total weighted value** |
| **Total high-quality liquid assets** | | |
| Total high-quality liquid assets (HQLA) | **116,820** | **116,466** |
| **Cash outflows** | | |
| Retail deposits from individuals and from small business customers, of which: | **184,486** | **14,357** |
| Stable deposits | **59,988** | **2,999** |
| Less stable deposits | **89,900** | **10,330** |
| Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221) | **34,598** | **1,028** |
| Unsecured wholesale financing, of which: | **115,334** | **73,860** |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | **1,664** | **416** |
| Non-operational deposits (all counterparties) | **113,376** | **73,150** |
| Unsecured debts | **294** | **294** |
| Secured wholesale financing | **48** | **-** |
| Additional liquidity requirements, of which: | **109,133** | **27,031** |
| Outflows related to derivative exposure and other collateral requirements | **20,150** | **18,450** |
| Outflows related to loss of funding on debt products | **-** | **-** |
| Credit and liquidity facilities | **88,983** | **8,581** |
| Other contractual funding obligations | **13,362** | **13,362** |
| Other contingent funding obligations | **56,720** | **1,896** |
| Total cash outflows | | **130,506** |
| **Cash inflows** | | |
| Secured lending (e.g. reverse repos) | **325** | **325** |
| Inflows from fully performing exposures | **28,937** | **21,629** |
| Other cash inflows | **21,222** | **17,060** |
| Total cash inflows | **50,484** | **39,014** |

| | Total adjusted value*** |
|---|---|
| Total high-quality liquid assets (HQLA) | **116,466** |
| Total net cash outflows | **91,492** |
| Liquidity coverage ratio (%) | **127%** |

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table E-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

| | For the quarter ended June 30, 2016 | |
|---|---|---|
| | Total unweighted value* | Total weighted value** |
| **Total high-quality liquid assets** | | |
| Total high-quality liquid assets (HQLA) | | 101,192 |
| **Cash outflows** | | |
| Retail deposits from individuals and from small business customers, of which: | 186,060 | 14,212 |
| Stable deposits | 57,687 | 2,884 |
| Less stable deposits | 88,164 | 10,133 |
| Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221) | 40,209 | 1,195 |
| Unsecured wholesale financing, of which: | 111,914 | 69,175 |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | 1,413 | 353 |
| Non-operational deposits (all counterparties) | 110,183 | 68,504 |
| Unsecured debts | 318 | 318 |
| Secured wholesale financing | 38 | - |
| Additional liquidity requirements, of which: | 114,485 | 20,397 |
| Outflows related to derivative exposure and other collateral requirements | 11,749 | 9,986 |
| Outflows related to loss of funding on debt products | - | - |
| Credit and liquidity facilities | 102,736 | 10,411 |
| Other contractual funding obligations | 11,435 | 11,435 |
| Other contingent funding obligations | 56,885 | 2,100 |
| Total cash outflows | | 117,319 |
| **Cash inflows** | | |
| Secured lending (e.g. reverse repos) | 635 | 635 |
| Inflows from fully performing exposures | 26,606 | 18,479 |
| Other cash inflows | 15,875 | 9,019 |
| Total cash inflows | 43,116 | 28,133 |

| | Total adjusted value*** |
|---|---|
| Total high-quality liquid assets (HQLA) | 101,192 |
| Total net cash outflows | 89,186 |
| Liquidity coverage ratio (%) | 113% |

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on three monthly observations, in accordance with the transitional directives.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on three monthly observations, in accordance with the transitional directives.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table E-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

| | For the quarter ended December 31, 2016 | |
|---|---|---|
| | Total unweighted value* | Total weighted value** |
| **Total high-quality liquid assets** | | |
| Total high-quality liquid assets (HQLA) | | 108,881 |
| **Cash outflows** | | |
| Retail deposits from individuals and from small business customers, of which: | 188,931 | 14,632 |
| Stable deposits | 59,386 | 2,969 |
| Less stable deposits | 91,724 | 10,539 |
| Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221) | 37,821 | 1,124 |
| Unsecured wholesale financing, of which: | 112,110 | 70,271 |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | 1,522 | 381 |
| Non-operational deposits (all counterparties) | 109,876 | 69,178 |
| Unsecured debts | 712 | 712 |
| Secured wholesale financing | 41 | - |
| Additional liquidity requirements, of which: | 100,864 | 18,578 |
| Outflows related to derivative exposure and other collateral requirements | 11,862 | 10,187 |
| Outflows related to loss of funding on debt products | - | - |
| Credit and liquidity facilities | 89,002 | 8,391 |
| Other contractual funding obligations | 12,906 | 12,906 |
| Other contingent funding obligations | 56,564 | 1,977 |
| Total cash outflows | | 118,364 |
| **Cash inflows** | | |
| Secured lending (e.g. reverse repos) | 415 | 415 |
| Inflows from fully performing exposures | 29,170 | 21,219 |
| Other cash inflows | 14,541 | 8,932 |
| Total cash inflows | 44,126 | 30,566 |

| | Total adjusted value*** |
|---|---|
| Total high-quality liquid assets (HQLA) | 108,881 |
| Total net cash outflows | 87,798 |
| Liquidity coverage ratio (%) | 124% |

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on three monthly observations, in accordance with the transitional directives.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on three monthly observations, in accordance with the transitional directives.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Pursuant to Proper Conduct of Banking Business Directive 221, "Liquidity Coverage Ratio," the minimum requirement as of January 1, 2017, is 100%.

The stand-alone and consolidated ratios of the banking corporation are calculated on a daily basis. These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 56. Credit-card companies are exempt from independent calculations, but are included in the consolidated data.

The average ratio during the quarter (the average of the daily observations) is 127%, consolidated, and 122% for the stand-alone banking corporation, while the minimum requirement is 100%. This ratio remained stable during the quarter, in comparison to the preceding quarter, despite the reduction of global private banking activity, which led to a reduction of deposit balances (for details regarding the reduction of international activity, see section 6.1.6, "International Activity," in the Corporate Governance Report as at June 30, 2017). There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

For additional information regarding liquidity risk and the management thereof, see the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at December 31, 2016; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016; and the section "Review of Risks" in the Report of the Board of Directors and Board of Management as at June 30, 2017.

**Table E-2: Details of liquid assets, by level, as required in the Basel directives*A/***

| | **Balance as at June 30, 2017** | **Average in the quarter ended June 30, 2017** |
|---|---|---|
| Level A assets | **115,929** | **115,640** |
| Level B1 assets | **566** | **573** |
| Level B2 assets | **214** | **253** |
| Total HQLA | **116,709** | **116,466** |

| | Balance as at June 30, 2016 | Average in the quarter ended June 30, 2016 |
|---|---|---|
| Level A assets | 99,627 | 100,298 |
| Level B1 assets | 355 | 325 |
| Level B2 assets | 504 | 569 |
| Total HQLA | 100,485 | 101,192 |

| | Balance as at December 31, 2016 | Average in the quarter ended December 31, 2016 |
|---|---|---|
| Level 1 assets | 112,832 | 107,990 |
| Level 2A assets | 448 | 453 |
| Level 2B assets | 427 | 438 |
| Total HQLA | 113,707 | 108,881 |

A regulatory limit applies in Switzerland and in New York to the use of the liquidity reserve of these entities. The Bank's scenarios assume the use of liquidity of the subsidiaries / New York branch, taking the limits of each entity into consideration.

Table E-3: Pledged and unpledged available assets*A/

| | Fair value balance as at June 30, 2017 | | |
|---|---|---|---|
| | Total balance in the balance sheet | Of which: pledged** | Of which: unpledged |
| Cash and deposits with banks | **81,959** | **970** | **80,989** |
| | | | |
| Israeli government bonds | **48,694** | **4,855** | **43,839** |
| Foreign government bonds | **9,575** | **949** | **8,626** |
| Bonds of financial institutions in Israel | **466** | **-** | **466** |
| Bonds of foreign financial institutions | **6,482** | **-** | **6,482** |
| Bonds of others in Israel | **527** | **-** | **527** |
| Bonds of foreign others | **2,459** | **42** | **2,417** |
| Shares of others | **2,296** | **-** | **2,296** |
| Total securities | **70,499** | **5,846** | **64,653** |

* In addition, other assets in the amount of NIS 1,556 million are pledged.
** Includes surplus pledges.

| | Fair value balance as at December 31, 2016 | | |
|---|---|---|---|
| | Total balance in the balance sheet | Of which: pledged** | Of which: unpledged |
| Cash and deposits with banks | 80,378 | 1,615 | 78,763 |
| | | | |
| Israeli government bonds | 50,844 | 5,974 | 44,870 |
| Foreign government bonds | 8,256 | 805 | 7,451 |
| Bonds of financial institutions in Israel | 577 | - | 577 |
| Bonds of foreign financial institutions | 5,739 | - | 5,739 |
| Bonds of others in Israel | 916 | - | 916 |
| Bonds of foreign others | 2,861 | 33 | 2,828 |
| Shares of others | 2,256 | - | 2,256 |
| Total securities | 71,449 | 6,812 | 64,637 |

* In addition, other assets in the amount of NIS 577 million are pledged.
** Includes surplus pledges.

**Oded Eran**
Chairman of the
Board of Directors

**Ari Pinto**
President and
Chief Executive Officer

**Tsahi Cohen**
Senior Deputy Managing Director,
Chief Risk Officer (CRO)

Tel Aviv, August 14, 2017