Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at March 31, 2017

Q1

bank hapoalim

Contents

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

List of Tables

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 March 31, 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 March 31, 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 March 31, 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 Annual 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

	March 31, 2017	March 31, 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)35,731**	33,602	(1)35,045
Additional Tier 1 capital	**1,221**	1,465	1,465
Total Tier 1 capital	**(1)36,952**	35,067	(1)36,510
Tier 2 capital	**10,538**	13,012	11,609
Total overall capital	**(1)47,490**	48,079	(1)48,119
2. Weighted balances of risk-adjusted assets			
Credit risk	**(2)290,010**	316,977	(2)290,139
Market risks	**5,174**	5,120	4,866
Operational risk	**23,517**	22,772	23,374
Total weighted balances of risk-adjusted assets	**(2)318,701**	344,869	(2)318,379
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**11.21%**	9.74%	11.01%
Ratio of Tier 1 capital to risk-adjusted assets	**11.59%**	10.17%	11.47%
Ratio of total capital to risk-adjusted assets	**14.90%**	13.94%	15.11%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department	**(3)10.20%**	(3)9.09%	(3)9.17%
Minimum total capital ratio required by the Banking Supervision Department	**(3)13.70%**	(3)12.59%	(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 forward. 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 1,013 million as at March 31, 2017, and NIS 1,065 million as at December 31, 2016, were 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]

	March 31, 2017	March 31, 2016	December 31, 2016
	Unaudited		Audited
	NIS millions		
Common equity Tier 1 capital			
Total capital	**35,078**	33,523	34,225
Differences between total capital and common equity Tier 1 capital	**(11)**	141	95
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**35,067**	33,664	34,320
Supervisory adjustments and deductions			
Goodwill and intangible assets	**-**	-	-
Deferred tax assets	**(35)**	(29)	(27)
Investments in capital of financial corporations not consolidated in the reports to the public	**-**	-	-
Other supervisory adjustments and deductions – common equity Tier 1 capital	**(25)**	(33)	(10)
Total supervisory adjustments and deductions, before Efficiency Plan Adjustments – common equity Tier 1 capital	**(60)**	(62)	(37)
Total Efficiency Plan Adjustments – common equity Tier 1 capital*	**724**	-	762
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**35,731**	33,602	35,045
Additional Tier 1 capital			
Additional Tier 1 capital – instruments, before deductions	**1,221**	1,465	1,465
Additional Tier 1 capital – total deductions	**-**	-	-
Total additional Tier 1 capital, after deductions	**1,221**	1,465	1,465
Total Tier 1 capital, after supervisory adjustments and deductions	**36,952**	35,067	36,510
Tier 2 capital			
Tier 2 capital – instruments, before deductions	**6,913**	9,153	7,982
Tier 2 capital – allowance for credit losses, before deductions	**3,625**	3,859	3,627
Total Tier 2 capital, before deductions	**10,538**	13,012	11,609
Deductions			
Total deductions – Tier 2 capital	**-**	-	-
Total Tier 2 capital	**10,538**	13,012	11,609
Total overall capital	**47,490**	48,079	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/]

	March 31, 2017	March 31, 2016	December 31, 2016
	Unaudited		Audited
	%		
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	**10.91%**	9.66%	10.66%
Effect of the transitional directives	**0.04%**	0.08%	0.07%
Ratio of common equity Tier 1 capital to risk-adjusted assets before the effect of the Efficiency Plan Adjustments	**10.95%**	9.74%	10.73%
Effect of Efficiency Plan Adjustments*	**0.26%**	-	0.28%
Ratio of common equity Tier 1 capital to risk-adjusted assets	**11.21%**	9.74%	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 March 31, 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	**(0.76%)**	**(1.36%)**

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

	March 31, 2017	March 31, 2016	December 31, 2016
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	**8,146**	8,128	8,146
Retained earnings	**27,392**	25,279	26,665
Non-controlling interests in equity of consolidated subsidiaries	**81**	124	116
Unrealized profits from adjustments of securities available for sale to fair value	**495**	372	355
Other capital instruments	**(323)**	(239)	(200)
Amounts deducted from Tier 1 capital	**(60)**	(62)	(37)
Total common equity Tier 1 capital	**35,731**	33,602	35,045
Innovative hybrid instruments	**1,221**	1,465	1,465
Total Tier 1 capital	**36,952**	35,067	36,510
Tier 2 capital			
Hybrid capital instruments and subordinated notes	**242**	1,091	264
Collective allowances for credit losses before the effect of related tax	**3,625**	3,859	3,627
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,671**	8,062	7,718
Amounts deducted from Tier 2 capital	**-**	-	-
Total Tier 2 capital	**10,538**	13,012	11,609
Total qualifying capital	**47,490**	48,079	48,119

For further details, see Note 9 to the Condensed Financial Statements as at March 31, 2017.

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

	March 31, 2017		March 31, 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	**8,146**		8,128		8,146		1+2
Retained earnings, including dividends proposed or declared after the balance sheet date	**27,392**	**1**	25,279	2	26,665	2	3
Accumulated other comprehensive income and disclosed retained earnings	**(552)**	**(78)**	133	(206)	(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)	**81**	**22**	124	42	116	42	5
Common equity Tier 1 capital before supervisory adjustments and deductions	**35,067**		33,664		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	**35**	**9**	29	19	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)**	**-**	(2)	(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	**26**	**6**	4	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)

	March 31, 2017		March 31, 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)	**-**	**-**	31	20	-	-	
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 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 exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	-	-	
Mortgage service rights in amounts exceeding 10% of common equity Tier I capital	**-**	**-**	-	-	-	-	
Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier I capital	**86**	**22**	-	-	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 I 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	**(810)**	**(22)**	-	-	(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 I capital	**(810)**	**(22)**	-	-	(878)	(77)	
Of which: in respect of the efficiency plan	**(724)**	**-**	-	-	(762)	-	
Of which: in respect of wage tax	**(86)**	**(22)**	-	-	(116)	(77)	

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

	March 31, 2017		March 31, 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	**(664)**	**15**	62	40	(725)	24	
Common equity Tier I capital	**35,731**		33,602		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)

	March 31, 2017		March 31, 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	**36,952**		35,067		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	**242**		1,091		264		11B
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,671**		8,062		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	**6,671**		8,062		7,718		11B
Collective allowances for credit losses before the effect of related tax	**3,625**		3,859		3,627		12
Tier 2 capital before deductions	**10,538**		13,012		11,609		

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

	March 31, 2017		March 31, 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	**10,538**		13,012		11,609		
Total capital	**47,490**		48,079		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	**318,122**		343,979		317,813		
Of which: credit risk assets	**289,431**		316,087		289,573		
Of which: market risk assets	**5,174**		5,120		4,866		
Of which: operational risk assets	**23,517**		22,772		23,374		
Total weighted risk-adjusted assets	**318,701**		344,869		318,379		

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

	March 31, 2017		March 31, 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	**11.21%**		9.74%		11.01%		
Tier 1 capital	**11.59%**		10.17%		11.47%		
Total capital	**14.90%**		13.94%		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 was 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 March 31, 2017, on a consolidated basis, according to data at the reporting date, is 10.2%.	**10.20%**		9.09%		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 was 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 March 31, 2017, on a consolidated basis, according to data at the reporting date, is 13.7%.	**13.70%**		12.59%		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	**998**		1,187		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	**471**		557		559		

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

	March 31, 2017		March 31, 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	**3,573**		3,036		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	**3,785**		3,859		3,800		
Ceiling for inclusion of provision in Tier 2 under the standardized approach	**3,625**		3,962		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							
Current ceiling amount for instruments included in common equity Tier I capital subject to the transitional directives	**-**		-		-		
Amount deducted from common equity Tier I capital due to the ceiling	**-**		-		-		
Current ceiling amount for instruments included in additional Tier I capital subject to the transitional directives	**1,221**		1,465		1,465		
Amount deducted from additional Tier I capital due to the ceiling	**1,176**		930		936		
Current 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	**-**		570		-		

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

	March 31, 2017	March 31, 2016	December 31, 2016	References to components of supervisory capital
	Consolidated supervisory balance sheet			
	NIS millions			
Assets				
Cash and deposits with banks*	**77,088**	63,086	80,378	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(7)**	(7)	(7)	12
Securities*	**74,894**	66,154	71,449	
* Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation	**998**	1,187	951	
* Of which: other securities	**73,896**	64,967	70,498	
Securities borrowed or purchased under agreements to resell	**144**	39	375	
Credit to the public	**273,962**	284,219	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	**332**	421	421	
Allowance for credit losses*	**(3,980)**	(4,369)	(4,127)	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(3,084)**	(3,282)	(3,060)	12
* Of which: allowance for credit losses not included in supervisory capital	**(896)**	(1,087)	(1,067)	
Net credit to the public	**269,982**	279,850	271,957	
Credit to governments	**2,265**	2,620	2,561	
Investment in equity-basis investees*	**157**	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	**139**	136	138	
Buildings and equipment	**3,303**	3,349	3,363	
Intangible assets and goodwill*	**-**	-	-	
* Of which: goodwill	**-**	-	-	
* Of which: other intangible assets	**-**	-	-	6
Assets in respect of derivative instruments	**12,262**	13,974	11,916	
Other assets*	**5,752**	5,684	5,953	
* Of which: deferred tax assets**	**3,725**	3,561	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	**44**	48	45	8
** Of which: other deferred tax assets	**3,681**	3,513	3,697	
* Of which: surplus of amount funded over provision	**-**	-	-	
* Of which: additional other assets	**2,027**	2,123	2,211	
Total assets	**445,847**	434,905	448,105	

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

	March 31, 2017	March 31, 2016	December 31, 2016	References to components of supervisory capital
	Consolidated supervisory balance sheet			
	NIS millions			
Liabilities and capital				
Deposits from the public	**337,518**	321,576	338,502	
Deposits from banks	**4,199**	3,817	4,377	
Government deposits	**489**	431	345	
Securities lent or sold under agreements to repurchase	**98**	511	484	
Bonds and subordinated notes*	**31,171**	36,836	33,560	
* Of which: subordinated notes not recognized as supervisory capital	**7,901**	8,912	8,073	
* Of which: subordinated notes recognized as supervisory capital**	**8,134**	10,618	9,447	
** Of which: eligible as supervisory capital components	**-**	-	-	11A
** Of which: ineligible as supervisory capital components and subject to transitional directives	**8,134**	10,618	9,447	11B
Liabilities in respect of derivative instruments*	**12,815**	15,401	12,587	
* Of which: in respect of own credit risk	**32**	6	18	10
Other liabilities	**24,479**	22,810	24,025	
* Of which: collective allowance for credit losses included in Tier 2 capital	**534**	570	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	**410,769**	401,382	413,880	

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

	March 31, 2017	March 31, 2016	December 31, 2016	References to components of supervisory capital
	Consolidated supervisory balance sheet			
	NIS millions			
Shareholders' equity*	**34,909**	33,336	34,047	
* Of which: ordinary share capital and premium, retained earnings, other comprehensive loss, and capital reserves**	**34,909**	33,336	34,047	
** Of which: ordinary share capital	**1,334**	1,332	1,334	1
** Of which: premium on ordinary shares	**6,812**	6,796	6,812	2
** Of which: retained earnings	**27,393**	25,281	26,667	3
** Of which: accumulated other comprehensive loss***	**(705)**	(154)	(840)	4A
*** Of which: adjustments for presentation of securities available for sale at fair value	**495**	372	355	
*** Of which: net losses in respect of cash-flow hedges	**(1)**	(3)	(2)	9
*** Of which: net adjustments from translation, after hedge effects	**(47)**	(8)	(33)	
** Of which: capital reserves from a benefit due to share-based payment transactions	**75**	81	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*	**169**	187	178	
* Of which: non-controlling interests attributable to common equity Tier 1 capital	**81**	124	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	**88**	63	62	
Total capital	**35,078**	33,523	34,225	
Total liabilities and capital	**445,847**	434,905	448,105	

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

	For the three months ended March 31, 2017				
	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, 2016	**35,045**	**1,465**	**36,510**	**11,609**	**48,119**
Changes in capital components					
Ordinary share capital	-	-	-	-	-
Premium on ordinary shares	-	-	-	-	-
Net profit for the period attributed to shareholders of the Bank	**767**	-	**767**	-	**767**
Dividends	**(41)**	-	**(41)**	-	**(41)**
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	**140**	-	**140**	-	**140**
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	**1**	-	**1**	-	**1**
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*	**(73)**	-	**(73)**	-	**(73)**
Effect of the efficiency plan, included in other comprehensive income	-	-	-	-	-
Adjustments in respect of the effect of the efficiency plan	**(38)**	-	**(38)**	-	**(38)**
Non-controlling interests in share capital of consolidated subsidiaries*	**(35)**	-	**(35)**	-	**(35)**
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	**709**	-	**709**	-	**709**

* 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 March 31, 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*	**8**	-	**8**	-	**8**
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*	**15**	-	**15**	-	**15**
Self investment in ordinary shares (held directly or indirectly)*	-	-	-	-	-
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	**23**	-	**23**	-	**23**
Decrease in supervisory capital instruments	-	**(244)**	**(244)**	**(1,069)**	**(1,313)**
Capital instruments issued	-	-	-	-	-
Change in collective allowances for credit losses before the effect of related tax	-	-	-	**(2)**	**(2)**
Other	-	-	-	-	-
Balance as at March 31, 2017	**35,731**	**1,221**	**36,952**	**10,538**	**47,490**

* 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 March 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	3	-	3	-	3
Premium on ordinary shares	31	-	31	-	31
Net profit for the period attributed to shareholders of the Bank	674	-	674	-	674
Dividends	(117)	-	(117)	-	(117)
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	(79)	-	(79)	-	(79)
Unrealized gains in respect of cash-flow hedges	1	-	1	-	1
Translation adjustments of autonomous affiliated units overseas	-	-	-	-	-
Benefit due to share-based payment transactions	(32)	-	(32)	-	(32)
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*	(174)	-	(174)	-	(174)
Non-controlling interests in share capital of consolidated subsidiaries*	(24)	-	(24)	-	(24)
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	285	-	285	-	285

* 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 March 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*	10	-	10	-	10
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*	-	-	-	-	-
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*	(3)	-	(3)	-	(3)
Self investment in ordinary shares (held directly or indirectly)*	11	-	11	-	11
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	(71)	-	(71)	-	(71)
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	-	-	-	(56)	(56)
Other	-	-	-	-	-
Balance as at March 31, 2016	33,602	1,465	35,067	13,012	48,079

* 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				
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 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*	8	-	8	-	8
Deferred tax assets attributed to timing differences (over 10% of common equity Tier I 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 I 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 first quarter of 2017 resulted primarily from net profit for the period, in the amount of NIS 767 million, which was offset by dividend distribution in the amount of NIS 41 million; unrealized profits from securities available for sale, in the amount of NIS 140 million; and a decrease in supervisory capital instruments, in the amount of NIS 1,313 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 first quarter of 2016 resulted primarily from net profit for the period, in the amount of NIS 674 million, which was offset by dividend distribution in the amount of NIS 117 million, and by a decrease in supervisory capital instruments, in the amount of NIS 1,769 million, due to the effect of the decrease in the ceiling for recognition of such instruments from 70% to 60%, in accordance with the transitional directives.

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.

The Basel 2 directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

For additional 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 additional information regarding capital adequacy management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2016.

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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), was required to maintain a minimum common equity Tier 1 capital ratio of 10%, and a minimum total capital ratio of 13.5%, by January 1, 2017. In addition, beginning January 1, 2015, a capital requirement is 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 at January 1, 2017, on a consolidated basis, based on data at the reporting date, stand at 10.2% and 13.7%, respectively.

On April 20, 2015, the Board of Directors of the Bank resolved to increase the target common equity Tier 1 capital ratio of the Bank, such that it stands 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, net of tax effect, in the amount of NIS 762 million, which was allocated to capital. The effect of the costs of the efficiency plan on capital-adequacy ratios, estimated at approximately 0.26% at the reporting date, are being allocated in equal parts over five years, from 2017 forward.

Further to the aforesaid Letter, in March 2017, the Banking Supervision Department issued a draft 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 costs of real estate and maintenance for 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 draft of 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. The Tel Aviv Stock Exchange can be treated as a qualified central counterparty until June 30, 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.

The effect of the adoption of the Circular, as at the reporting date, is immaterial, assuming that the stock exchange in Israel is a qualified party. If the stock exchange in Israel is not recognized as a qualified central counterparty, the estimated effect as at the date of the report is a decrease of approximately 0.2% in the common equity Tier 1 capital ratio.

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)

	March 31, 2017		March 31, 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	**1,477**	**202**	1,959	247	1,649	209
Debts of public-sector entities	**2,835**	**388**	3,233	407	2,863	363
Debts of banking corporations	**7,044**	**965**	5,607	706	6,357	805
Debts of corporations	**116,368**	**15,942**	127,461	16,047	118,620	15,029
Debts secured by commercial real estate	**45,796**	**6,274**	63,656	8,014	46,207	5,854
Retail exposures to individuals	**47,934**	**6,567**	46,337	5,834	47,005	5,956
Loans to small businesses	**7,859**	**1,077**	7,483	942	7,323	928
Housing loans	**38,751**	**5,309**	37,337	4,701	38,288	4,851
Securitization	**91**	**12**	94	12	96	12
Other assets	**17,806**	**2,439**	19,222	2,420	18,180	2,303
CVA risk	**4,049**	**555**	4,588	578	3,551	450
Total in respect of credit risk	**290,010**	**39,730**	316,977	39,908	290,139	36,760
Market risks	**5,174**	**709**	5,120	645	4,866	617
Operational risk	**23,517**	**3,222**	22,772	2,867	23,374	2,961
Total risk-adjusted assets in respect of the various risks	**318,701**	**43,661**	344,869	43,420	318,379	40,338
Common equity Tier 1 capital	**35,731**		33,602		35,045	
Tier 1 capital	**36,952**		35,067		36,510	
Total capital	**47,490**		48,079		48,119	

	%		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**11.21%**	9.74%	11.01%
Ratio of Tier 1 capital to risk-adjusted assets	**11.59%**	10.17%	11.47%
Ratio of total capital to risk-adjusted assets	**14.90%**	13.94%	15.11%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department	**(2) 10.20%**	(2) 9.09%	(2) 9.17%
Minimum total capital ratio required by the Banking Supervision Department	**(2) 13.70%**	(2) 12.59%	(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 March 31, 2017; 12.67% as at December 31, 2016; and 12.59% as at March 31, 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]

	March 31, 2017										
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Private individuals - overseas	Business activity - overseas	Other	Total
	NIS millions										
Credit risk											
Activity in Israel	**83,176**	**2,461**	**66,193**	**35,248**	**52,888**	**4,507**	**21,438**	**-**	**-**	**3,568**	**269,479**
Activity abroad	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,125**	**19,406**	**-**	**20,531**
Total credit risk assets	**83,176**	**2,461**	**66,193**	**35,248**	**52,888**	**4,507**	**21,438**	**1,125**	**19,406**	**3,568**	**290,010**
Market risk	**-**	**-**	**-**	**-**	**-**	**-**	**5,174**	**-**	**-**	**-**	**5,174**
Operational risk	**7,800**	**483**	**5,446**	**1,633**	**2,847**	**405**	**2,279**	**287**	**1,051**	**1,286**	**23,517**
Total risk-adjusted assets	**90,976**	**2,944**	**71,639**	**36,881**	**55,735**	**4,912**	**28,891**	**1,412**	**20,457**	**4,854**	**318,701**

	March 31, 2016										
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Private individuals - overseas	Business activity - overseas	Other	Total
	NIS millions										
Credit risk											
Activity in Israel	82,123	3,204	60,957	37,728	78,525	5,599	17,983	-	-	4,070	290,189
Activity abroad	-	-	-	-	-	-	-	2,048	24,740	-	26,788
Total credit risk assets	82,123	3,204	60,957	37,728	78,525	5,599	17,983	2,048	24,740	4,070	316,977
Market risk	-	-	-	-	-	-	5,120	-	-	-	5,120
Operational risk	7,200	501	4,601	1,715	3,000	430	2,248	662	1,053	1,362	22,772
Total risk-adjusted assets	89,323	3,705	65,558	39,443	81,525	6,029	25,351	2,710	25,793	5,432	344,869

	December 31, 2016										
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Private individuals - overseas	Business 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	-	-	-	-	-	-	-	1,346	20,712	-	22,058
Total credit risk assets	83,877	2,567	62,471	35,795	54,938	4,599	19,914	1,346	20,712	3,920	290,139
Market risk	-	-	-	-	-	-	4,866	-	-	-	4,866
Operational risk	7,447	437	4,700	1,617	3,002	435	2,822	339	1,251	1,324	23,374
Total risk-adjusted assets	91,324	3,004	67,171	37,412	57,940	5,034	27,602	1,685	21,963	5,244	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 March 31, 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)	**2,022**	**308**	**143**	**2,473**
Changes in portfolio quality(2)	**(79)**	**-**	**-**	**(79)**
Changes in methodology and policy(3)	**(136)**	**-**	**-**	**(136)**
Sales(4)	**(135)**	**-**	**-**	**(135)**
Effect of changes in exchange rates	**(1,801)**	**-**	**-**	**(1,801)**
Balance as at March 31, 2017	**290,010**	**5,174**	**23,517**	**318,701**

	For the three months ended March 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)	1,164	558	101	1,823
Changes in portfolio quality(2)	(196)	-	-	(196)
Changes in methodology and policy(3)	63	-	-	63
Sales(4)	-	-	-	-
Effect of changes in exchange rates	(1,945)	-	-	(1,945)
Balance as at March 31, 2016	316,977	5,120	22,772	344,869

	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

	March 31, 2017	March 31, 2016	December 31, 2016
	NIS millions		
Consolidated data			
Tier 1 capital	***36,952**	35,067	*36,510
Total exposures	***506,326**	493,049	*503,875
	%		
Leverage ratio	**7.30%**	7.11%	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 0.15%, 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

	March 31, 2017	March 31, 2016	December 31, 2016
	NIS millions		
Total consolidated assets as per published financial statements	**445,847**	434,905	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)	**(643)**	(6,650)	(5,400)
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**58,319**	61,541	58,390
Other adjustments	**2,803**	3,253	2,780
Exposure for the purposes of the leverage ratio	**506,326**	493,049	503,875

(1) The data as at March 31, 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

	March 31, 2017	March 31, 2016	December 31, 2016
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**436,279**	424,165	438,614
Asset amounts deducted in determining Tier 1 capital	**(35)**	(29)	(27)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**436,244**	424,136	438,587
Derivative exposures			
Replacement cost associated with all derivatives transactions[1]	**7,218**	3,896	2,774
Add-on amounts for potential future exposure associated with all derivatives transactions	**5,713**	5,554	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	**(1,439)**	(2,249)	(1,580)
Exempted central counterparty leg of client-cleared trade exposures	**-**	-	-
Adjusted effective notional amount of written credit derivatives	**127**	132	135
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**	-	-
Total derivative exposures	**11,619**	7,333	6,523
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**144**	39	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	**144**	39	375
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**169,037**	183,915	170,005
Adjustments for conversion to credit equivalent amounts	**(110,718)**	(122,374)	(111,615)
Off-balance sheet items	**58,319**	61,541	58,390
Capital and total exposures			
Tier 1 capital	**36,952**	35,067	36,510
Total exposures	**506,326**	493,049	503,875
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**7.30%**	7.11%	7.25%

(1) The data as at March 31, 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 System Structure and Organization

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 Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Supervisor for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Supervisor of Banks.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

1. The first line of defense includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The management of the business line bears the primary responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.

2. The second line of defense consists of the control units at the Risk Management Area, which is independent of the business Areas. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analyzing the congruence of products and activities with the risk appetite and risk capacity limits established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accountancy, legal counsel, the secretariat of the Bank, and human resources.
3. The third line of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overarching risk strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control concept framework for the Group and ensuring that it meets risk-management needs.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
- Supervising and monitoring the implementation of the established risk-management policy, examining the actual risk profile, and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

The Board of Management of the Bank, including the management of the Areas, is responsible for formulating, instilling, and implementing the risk-management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management:

- Designing a risk-management policy consistent with the risk-appetite framework established by the Board of Directors, including risk limits in the various areas of activity and key risk areas, and submitting this policy to the Board of Directors for approval.
- Establishing internal regulations and risk limits aligned with the policy, appropriate work methods for risk assessment, and decision-making processes based on an analysis of return/business benefit and risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
- Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
- Ensuring the existence of adequate resources for risk management at the corporation, including a framework of internal controls, and the existence of comprehensive, effective, independent control and reporting systems for risks.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen.

Financial risks are managed by designated members of the Board of Management and under their responsibility. The principal members of the Board of Management responsible for managing credit risks are Mr. J. Orbach, Head of Corporate Banking, and Mr. R. Stein, Head of Retail Banking. The member of the Board of Management responsible for managing market, investment, and liquidity risks is Mr. D. Koller, Head of Financial Markets and International Banking. Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Technological risk is managed by Ms. E. Ben-Zeev, Head of Information Technology. Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

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. The new structure is described below.

Table D-1: Risk and capital management governance diagram of the Bank[A/]

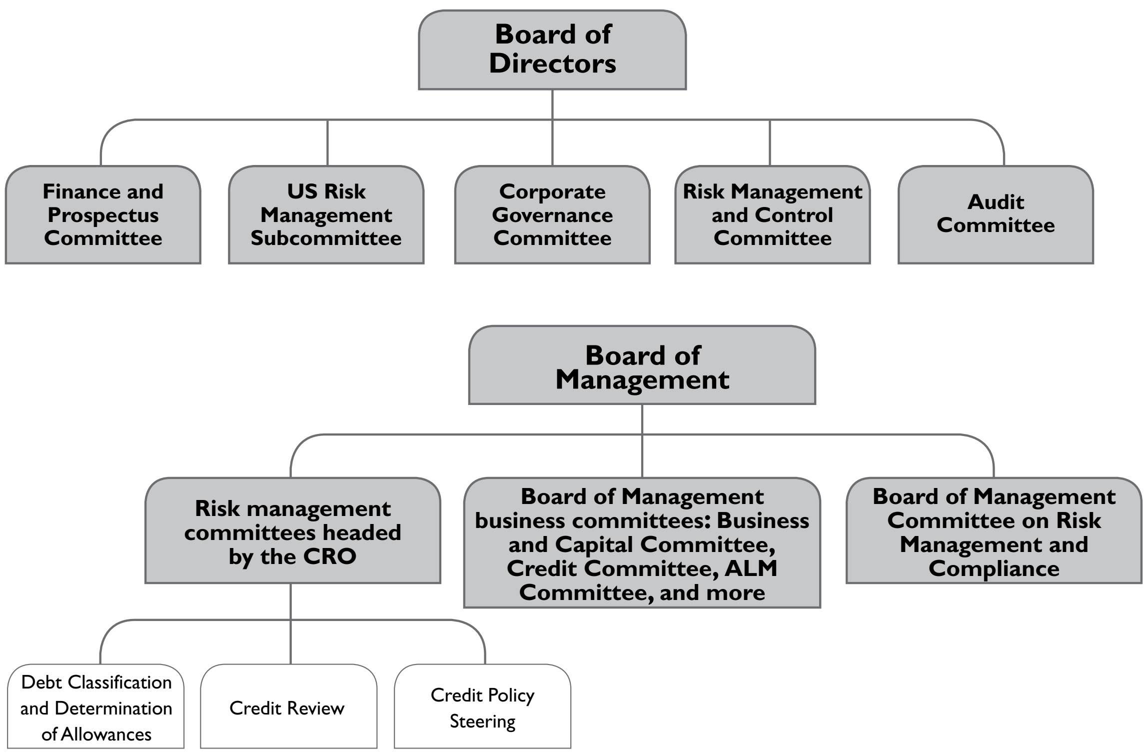
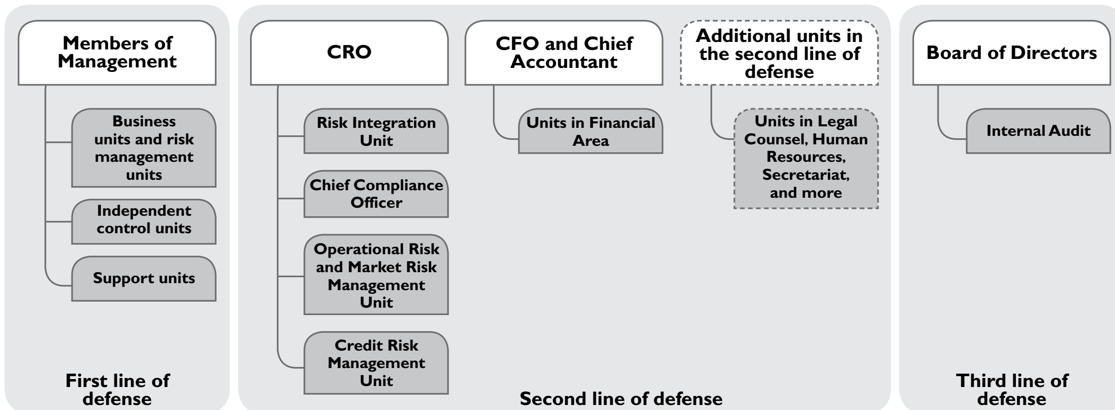


Table D-2: Risk management organizational structure[A/]



Board of Directors' Committee on Risk Management and Control – A Board of Directors' Committee on Risk Management is in operation at the Bank. The committee's mission is to formulate the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the plenum of the Board of Directors receive reports on risks and on the execution of approved policies at least once each quarter.

US Risk Management Subcommittee – Established in order to supervise the risk-management policy of the Bank's activity in the United States. The subcommittee examines the risk-management policy of the Bank's activity in the United States, and ascertains that the Bank's activity in the United States is conducted within the bounds of the risk-management policy that has been established.

Additional committees of the Board of Directors are engaged in matters related to risk management, most notably the Finance and Prospectus Committee, the Corporate Governance Committee, and the Audit Committee.

For further details regarding the activity of the Board of Directors and of the Board Committees, see the Corporate Governance Report in the Annual Financial Statements for 2016.

The Board of Management Committee on Risk Management and Compliance, headed by the CEO – Responsible for planning the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors.

Additional committees of the Board of Management operate in specific areas of risk, subject to the risk policies and limits established by the Board of Directors and the Board Committees. Committees have also been established that convene under certain conditions, including the Financial Crises Committee and the Banking Emergency Committee.

Risk Management Area – The activities and responsibilities of the Area are consistent with Proper Conduct of Banking Business Directive 310. The main objectives of the Area are: to instill an advanced culture of risk management and monitoring at the Bank Group, supporting informed risk-taking, with the aim of maximizing the profitability of the Group at a risk level aligned with its risk appetite; to establish risk-management and compliance policies at the level of the Group, in line with the goals of the Group and with the requirements of the Basel Committee and of relevant local regulation; and to examine and monitor the overall risk profile of the Bank and its congruence with the risk appetite set by the Board of Directors.

The Area ensures the existence and quality of the key risk-management processes of the Group: identification and assessment of risks, establishment of risk capacity and risk appetite limits, establishment of control mechanisms, monitoring of risks, and reporting. The Area leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and participates in capital management. The Area comprises four units, headed by the manager of the Area, who has the rank of a Member of Management: (1) the Credit Risk Management Unit, (2) the Operational and Market Risk Management Unit, (3) the Chief Compliance Officer and Securities Enforcement Unit, and (4) the Risk Integration Unit.

The Risk Management Area also operates several committees, headed by the Chief Risk Officer:

Board of Management Committee on Credit Policy Steering – The committee formulates the credit policy of the Bank.

Board of Management Committee on Credit Review – The committee discusses credit review reports prepared for major borrowers of Bank Hapoalim and for risk-based samples of the overall credit portfolio of the Bank, and examines the reliability of the credit rating and the fairness of the classifications and allowances of the Group.

Board of Management Committee on Debt Classification and Determination of Allowance for Credit Losses – The committee is engaged in formulating methodology for the collective allowance, formulating policy for classifications and individual allowances, determining credit classifications, and determining individual allowances for credit losses, subject to the hierarchy of authority.

Validation Committee – The committee is responsible for monitoring the status of progress on the plan for validation and improvement of the models in use, related validation studies, and monitoring and approval of the set of material models in use.

For more extensive information regarding risk management, 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.

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 March 31, 2017.

Credit Risk Exposures

Table D-3: Segmentation of credit-risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses[1]

	March 31, 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]	**68,232**	**3,123**	**9,661**	**89,748**	**33,495**	**64,676**	**10,615**	**69,510**	**-**	**-**	**349,060**	**351,856**
Bonds[4]	**53,397**	**688**	**6,709**	**3,385**	**23**	**-**	**-**	**-**	**-**	**-**	**64,202**	**62,203**
Derivatives[5]	**154**	**1,598**	**3,623**	**8,508**	**154**	**49**	**16**	**-**	**-**	**-**	**14,102**	**11,585**
Other off-balance sheet exposures	**147**	**1,670**	**2,012**	**56,200**	**57,771**	**44,140**	**4,038**	**2,566**	**182**	**-**	**168,726**	**169,193**
Other assets[6]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,860**	**14,860**	**15,088**
Total	**121,930**	**7,079**	**22,005**	**157,841**	**91,443**	**108,865**	**14,669**	**72,076**	**182**	**14,860**	**610,950**	**609,925**

	March 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]	56,422	4,622	6,514	101,212	37,724	61,474	9,995	66,727	-	-	344,690	345,014
Bonds[4]	45,073	1,057	4,493	4,559	410	-	-	-	-	-	55,592	54,436
Derivatives[5]	37	1,008	2,440	6,152	273	35	11	9	-	-	9,965	9,963
Other off-balance sheet exposures	412	1,915	2,217	65,983	55,947	50,471	3,852	2,496	188	-	183,481	187,270
Other assets[6]	-	-	-	-	-	-	-	-	-	15,703	15,703	15,968
Total	101,944	8,602	15,664	177,906	94,354	111,980	13,858	69,232	188	15,703	609,431	612,651

(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 March 31, 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-3: 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 March 31, 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: Total principal exposures to foreign countries(1)

Balance sheet exposure to foreign countries as at March 31, 2017 amounted to NIS 60.7 billion, compared with NIS 59.6 billion at the end of 2016.

Off-balance sheet exposure to foreign countries as at March 31, 2017 amounted to NIS 26.5 billion, compared with NIS 16.6 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.

	March 31			
	2017		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	**26,811**	**8,017**	23,335	8,922
Europe*	**19,728**	**15,690**	22,847	4,672
Others	**14,129**	**2,758**	13,433	2,963
Total exposures to foreign countries	**60,668**	**26,465**	59,615	16,557
Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain)	**283**	**371**	536	337
Of which: total exposure to LDCs	**1,567**	**906**	2,314	489

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 13,344 million in respect of the acquisition of insurance for the portfolio of Sale Law guarantees from international reinsurers.

Table D-5: Segmentation of the portfolio by term to maturity and by principal type of credit exposure(1)

	March 31, 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)	**166,336**	**76,159**	**106,565**	**-**	**-**	**349,060**
Bonds(4)	**28,892**	**26,802**	**8,508**	**-**	**-**	**64,202**
Derivatives(5)	**10,206**	**8,297**	**6,658**	**-**	**(11,059)**	**14,102**
Other off-balance sheet exposures	**36,772**	**125,868**	**6,086**	**-**	**-**	**168,726**
Other assets(6)	**2,628**	**-**	**-**	**12,232**	**-**	**14,860**
Total	**244,834**	**237,126**	**127,817**	**12,232**	**(11,059)**	**610,950**

	March 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)	160,077	81,807	102,806	-	-	344,690
Bonds(4)	18,782	24,233	12,577	-	-	55,592
Derivatives(5)	6,579	7,852	8,626	-	(13,092)	9,965
Other off-balance sheet exposures	34,287	145,438	3,756	-	-	183,481
Other assets(6)	2,595	-	-	13,108	-	15,703
Total	222,320	259,330	127,765	13,108	(13,092)	609,431

	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 March 31, 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-6: 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

	March 31, 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	**40,204**	**1,232**	**3.1%**	**387**	**23**	**18**
Construction and real estate - construction	**57,094**	**1,313**	**2.3%**	**725**	**(13)**	**11**
Construction and real estate - real-estate activities	**29,240**	**614**	**2.1%**	**441**	**(56)**	**(12)**
Commerce	**39,684**	**1,787**	**4.5%**	**558**	**30**	**128**
Financial services	**38,227**	**368**	**1.0%**	**97**	**(111)**	**(59)**
Private individuals - housing loans	**64,836**	**577**	**0.9%**	**-**	**(5)**	**20**
Private individuals - other	**85,980**	**1,089**	**1.3%**	**768**	**136**	**120**
Other sectors	**69,118**	**2,478**	**3.6%**	**1,091**	**103**	**42**
Total public	**424,383**	**9,458**	**2.2%**	**4,067**	**107**	**268**
Total banks	**45,701**	**-**	**0.0%**	**-**	**-**	**-**
Total governments	**64,493**	**-**	**0.0%**	**-**	**-**	**-**
Total	**534,577**	**9,458**	**1.8%**	**4,067**	**107**	**268**

	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-7: Change in allowance for credit losses

	For the three months ended March 31, 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)**	**136**	**107**	**-**	**107**
Charge-offs	**(334)**	**(20)**	**(203)**	**(557)**	**-**	**(557)**
Recoveries of debts charged off in previous years	**206**	**-**	**83**	**289**	**-**	**289**
Net charge-offs	**(128)**	**(20)**	**(120)**	**(268)**	**-**	**(268)**
Adjustments from translation of financial statements	**-**	**-**	**-**	**-**	**-**	**-**
Allowance for credit losses as at March 31, 2017[2] (unaudited)	**3,347**	**341**	**955**	**4,643**	**7**	**4,650**
(1) Of which: in respect of off-balance sheet credit instruments	**2**	**-**	**2**	**4**	**-**	**4**
(2) Of which: in respect of off-balance sheet credit instruments	**603**	**-**	**60**	**663**	**-**	**663**

	For the three months ended March 31, 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]	(58)	(5)	105	42	4	46
Charge-offs	(154)	-	(156)	(310)	-	(310)
Recoveries of debts charged off in previous years	132	-	81	213	-	213
Net charge-offs	(22)	-	(75)	(97)	-	(97)
Adjustments from translation of financial statements	-	-	-	-	-	-
Allowance for credit losses as at March 31, 2016[2] (unaudited)	3,767	387	874	5,028	7	5,035
(1) Of which: in respect of off-balance sheet credit instruments	(27)	-	(11)	(38)	-	(38)
(2) Of which: in respect of off-balance sheet credit instruments	601	-	58	659	-	659

Additional Information Regarding Exposures to Credit Risk[A]

Construction and Real Estate

As at March 31, 2017, total credit risk in the construction and real-estate sectors amounted to approximately NIS 86 billion.

Table D-8: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity[A]

	Balance as at March 31, 2017		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**2,583**	**1,098**	**3,681**
Construction for industry	**522**	**164**	**686**
Housing construction	**11,199**	***29,328**	**40,527**
Yield-generating properties	**20,805**	**5,776**	**26,581**
Other	**8,120**	**6,739**	**14,859**
Total construction and real-estate sectors	**43,229**	**43,105**	**86,334**

* Includes off-balance sheet credit risk in the amount of approximately NIS 13,717 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees.

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

Table D-9: 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]

	March 31, 2017				December 31, 2016			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions				NIS millions		
Economic sector								
Industry	**3**	**803**	**5,533**	**6,336**	3	872	5,800	6,672
Construction and real estate - construction	**1**	**136**	**1,109**	**1,245**	1	136	1,438	1,574
Construction and real estate - real-estate activities	**1**	**942**	**392**	**1,334**	2	1,632	1,091	2,723
Electricity and water supply	**1**	**1,067**	**1,778**	**2,845**	1	673	1,968	2,641
Financial services	**4**	**4,700**	**2,864**	**7,564**	4	5,262	2,152	7,414
Total	**10**	**7,648**	**11,676**	**19,324**	11	8,575	12,449	21,024

Table D-10: Balances of balance sheet credit and off-balance sheet credit risk to the six largest borrowers, by sector of the economy[A]

	March 31, 2017		
	Balance sheet credit risk	Off-balance sheet credit risk	Total
	NIS millions		
Economic sector			
Industry	**122**	**3,361**	**3,483**
Financial services	**2,187**	**810**	**2,997**
Electricity and water supply	**1,067**	**1,778**	**2,845**
Financial services	**1,100**	**762**	**1,862**
Industry	**145**	**1,438**	**1,583**
Financial services	**180**	**1,258**	**1,438**
Total	**4,801**	**9,407**	**14,208**

	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 March 31, 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).

With regard to the definition of capital, the following will apply: Tier 1 capital, as in the definition of capital, supplemented by Tier 2 capital, as published in the financial statements as at December 31, 2015. The supplement will be reduced in equal installments over twelve quarters, until it reaches zero on December 31, 2018.

Pursuant to the directive, the rate of the "indebtedness" of a "borrower" and of a "group of borrowers," as defined therein, after deduction of the permitted amounts, shall not exceed 15% and 25%, respectively, of the capital of the bank, as defined above. The directive further states that the total indebtedness (after deduction of the permitted amounts) of the borrowers, borrower groups, and banking borrower groups, each of whose net indebtedness to the banking corporation exceeds 10% of the capital of the bank, shall not exceed 120% of the capital of the bank, as defined above.

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with these limits.

Credit to Private Individuals (Excluding Housing)[A]

Table D-11: Balance of credit to private individuals in Israel[A]

	Balance as at		Change	
	March 31, 2017	December 31, 2016		
	NIS millions			%
Balance sheet				
Negative balance in current accounts	**3,589**	3,683	(94)	(2.55%)
Loans	**37,951**	37,573	378	1.01%
Debtors in respect of credit-card activity	**11,259**	12,203	(944)	(7.74%)
Total balance sheet credit risk	**52,799**	53,459	(660)	(1.23%)
Off-balance sheet				
Off-balance sheet credit risk	**31,965**	30,597	1,368	4.47%
Total credit risk	**84,764**	84,056	708	0.84%

Table D-12: 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	
	March 31, 2017	December 31, 2016		**March 31, 2017**	December 31, 2016
	NIS millions			%	
Problematic credit risk	**1,056**	1,048	0.76%	**2.00%**	1.96%
Of which: impaired credit risk	**737**	720	2.36%	**1.40%**	1.35%
Debts in arrears of more than 90 days	**81**	81	-	**0.15%**	0.15%
Net charge-offs	**121**	381	(1)27.03%	**(1)0.92%**	0.71%
Allowance for credit losses	**924**	906	1.99%	**1.75%**	1.69%

(1) Calculated on an annualized basis.

The balance of loans to private individuals in Israel increased moderately in the first quarter of 2017, influenced by the low interest rates. Total balance sheet credit risk decreased by approximately 1.2% in the last quarter, compared with an increase of approximately 3.2% in 2016. This decrease was influenced by a decrease in negative balances in current accounts and in debtors in respect of credit-card activity.

The upward trend in the level of risk in the portfolio of credit to private individuals continued in the first quarter of 2017, and was reflected, particularly, in an increase in the rate of net charge-offs and in the rate of problematic credit, the rate of impaired credit, and the allowance for credit losses. The Bank conducts processes to track and monitor the risk of credit to private individuals, and updates processes as necessary.

The balances of credit risk to private individuals include balances in respect of the activity of Isracard and Poalim Express, which focus on credit cards. Isracard is also active in the area of credit, but its share of the total loan portfolio is low, constituting approximately 5.8% of the balance of loans in the first quarter of 2017, compared with approximately 5.5% in December 2016.

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 March 31, 2017.

Risks in the Housing Loan Portfolio[A/]

Table D-13: 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 %		
March 31, 2017	**11,013**	**15.7%**	**25,796**	**36.8%**	**12,624**	**18.0%**	**20,093**	**28.7%**	**527**	**0.8%**	**70,053**	**1.2%**
December 31, 2016	10,570	15.3%	25,360	36.6%	12,630	18.2%	20,120	29.1%	574	0.8%	69,254	11.5%

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-14: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed[A/]

	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Characteristics					
Financing rate over 60%	**26.1%**	24.5%	18.8%	27.0%	31.2%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**0.0%**	0.2%	0.1%	0.2%	0.3%
Percentage with floating interest rates varying at a frequency of less than 5 years	**30.7%**	30.0%	31.0%	29.9%	30.3%
Percentage with floating rates	**56.8%**	56.4%	55.7%	53.8%	53.7%
Percentage of all-purpose loans	**5.9%**	3.0%	2.6%	2.8%	3.3%
Loans for investment purposes as a percentage of acquisition	**11.3%**	14.6%	14.1%	15.2%	15.3%
Principal planned for repayment after age 65 (excluding investments)	**6.5%**	5.7%	6.3%	6.6%	6.5%
Average loan per acquisition, in NIS thousands	**561**	632	681	686	613
Average original term to maturity per acquisition, in years (excluding bridge loans)	**23.8**	23.2	23.3	23.3	22.8

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 first quarter of 2017; however, the percentage of loans executed with payments at a rate greater than 40% of income decreased to 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.

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-15: Amount of gross credit exposures before credit risk mitigation

	March 31, 2017									
	0%	2%(2)	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions									
Sovereigns	**115,704**	**-**	**4,468**	**-**	**207**	**-**	**1,551**	**-**	**-**	**121,930**
Public sector	**-**	**-**	**734**	**-**	**6,345**	**-**	**-**	**-**	**-**	**7,079**
Banking corporations	**286**	**-**	**17,824**	**-**	**3,587**	**-**	**308**	**-**	**-**	**22,005**
Corporations	**-**	**3,162**	**1,215**	**-**	**1,917**	**-**	**150,518**	**530**	**-**	**157,342**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**90,739**	**511**	**-**	**91,250**
Retail to individuals	**-**	**-**	**-**	**-**	**-**	**108,174**	**116**	**462**	**-**	**108,752**
Small businesses	**-**	**-**	**-**	**-**	**-**	**14,504**	**38**	**66**	**-**	**14,608**
Housing loans	**-**	**-**	**-**	**27,244**	**15,551**	**23,402**	**5,695**	**184**	**-**	**72,076**
Securitization	**-**	**-**	**-**	**-**	**-**	**-**	**182**	**-**	**-**	**182**
Others	**2,739**	**-**	**-**	**-**	**-**	**-**	**7,542**	**854**	**3,725**	**14,860**
Total	**118,729**	**3,162**	**24,241**	**27,244**	**27,607**	**146,080**	**256,689**	**2,607**	**3,725**	**610,084**

	March 31, 2016								
	0%	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions								
Sovereigns	94,086	5,847	-	123	-	1,888	-	-	101,944
Public sector	-	2,724	-	5,877	-	-	-	-	8,601
Banking corporations	311	12,474	-	2,526	-	352	-	-	15,663
Corporations	-	2,082	-	3,347	-	170,045	1,562	-	177,036
Secured by commercial real estate	-	-	-	-	-	93,640	563	-	94,203
Retail to individuals	-	-	-	-	111,058	134	684	-	111,876
Small businesses	-	-	-	-	13,680	40	90	-	13,810
Housing loans	-	-	28,184	12,128	22,387	6,305	227	-	69,231
Securitization	-	-	-	-	-	188	-	-	188
Others	2,690	-	-	-	-	7,951	992	4,070	15,703
Total	97,087	23,127	28,184	24,001	147,125	280,543	4,118	4,070	608,255

(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 March 31, 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 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-16: Amount of net credit exposures after credit risk mitigation

	March 31, 2017									
	0%	2%(2)	20%	35%	50%	75%	100%	150%	250%	Net credit exposure(1)
	NIS millions									
Sovereigns	**115,704**	**-**	**4,468**	**-**	**207**	**-**	**494**	**-**	**-**	**120,873**
Public sector	**2,693**	**-**	**734**	**-**	**6,391**	**-**	**-**	**-**	**-**	**9,818**
Banking corporations	**286**	**-**	**19,421**	**-**	**16,493**	**-**	**221**	**-**	**-**	**36,421**
Corporations	**-**	**3,162**	**25,153**	**-**	**7,443**	**-**	**144,238**	**517**	**-**	**180,513**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**59,647**	**507**	**-**	**60,154**
Retail to individuals	**-**	**-**	**-**	**-**	**-**	**91,764**	**116**	**459**	**-**	**92,339**
Small businesses	**-**	**-**	**-**	**-**	**-**	**13,046**	**37**	**65**	**-**	**13,148**
Housing loans	**-**	**-**	**-**	**27,244**	**15,551**	**23,402**	**5,695**	**184**	**-**	**72,076**
Securitization	**-**	**-**	**-**	**-**	**-**	**-**	**182**	**-**	**-**	**182**
Others	**2,739**	**-**	**-**	**-**	**-**	**-**	**7,542**	**854**	**3,725**	**14,860**
Total	**121,422**	**3,162**	**49,776**	**27,244**	**46,085**	**128,212**	**218,172**	**2,586**	**3,725**	**600,384**

(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 March 31, 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-16: Amount of net credit exposures after credit risk mitigation (continued)

	March 31, 2016								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[(1)]
	NIS millions								
Sovereigns	94,086	5,847	-	123	-	850	-	-	100,906
Public sector	1,863	2,724	-	5,978	-	-	-	-	10,565
Banking corporations	311	14,500	-	15,641	-	275	-	-	30,727
Corporations	-	2,077	-	3,180	-	162,109	1,464	-	168,830
Secured by commercial real estate	-	-	-	-	-	93,174	561	-	93,735
Retail to individuals	-	-	-	-	94,669	133	682	-	95,484
Small businesses	-	-	-	-	12,409	39	87	-	12,535
Housing loans	-	-	28,184	12,128	22,387	6,305	227	-	69,231
Securitization	-	-	-	-	-	188	-	-	188
Others	2,690	-	-	-	-	7,951	992	4,070	15,703
Total	98,950	25,148	28,184	37,050	129,465	271,024	4,013	4,070	597,904

	December 31, 2016								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[(1)]
	NIS millions								
Sovereigns	116,840	4,105	-	329	-	680	-	-	121,954
Public sector	2,932	837	-	6,780	-	-	-	-	10,549
Banking corporations	302	17,240	-	15,913	-	182	-	-	33,637
Corporations	-	24,256	-	7,937	-	148,778	888	-	181,859
Secured by commercial real estate	-	-	-	-	-	60,283	480	-	60,763
Retail to individuals	-	-	-	-	89,207	105	436	-	89,748
Small businesses	-	-	-	-	12,104	39	56	-	12,199
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	122,954	46,438	27,415	45,673	124,040	223,838	2,988	3,753	597,099

(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).

Credit Risk Mitigation: Standardized Approach Disclosures

Collateral management at the Bank is described in the section, "Hedging and Risk Mitigation" in the Report on Risks in the Annual Reporting. 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-17: 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

	March 31, 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	**121,930**	**(1,057)**	**-**	**(1,057)**	**-**	**-**	**120,873**
Public sector	**7,079**	**-**	**-**	**-**	**2,795**	**(56)**	**9,818**
Banking corporations	**22,005**	**(1,420)**	**-**	**(1,420)**	**16,779**	**(943)**	**36,421**
Corporations	**157,342**	**(1,943)**	**-**	**(1,943)**	**30,463**	**(5,349)**	**180,513**
Secured by commercial real estate	**91,250**	**(30,433)**	**-**	**(30,433)**	**-**	**(663)**	**60,154**
Retail to individuals	**108,752**	**(14,850)**	**-**	**(14,850)**	**-**	**(1,563)**	**92,339**
Small businesses	**14,608**	**(268)**	**-**	**(268)**	**-**	**(1,192)**	**13,148**
Housing loans	**72,076**	**-**	**-**	**-**	**-**	**-**	**72,076**
Securitization	**182**	**-**	**-**	**-**	**-**	**-**	**182**
Others	**14,860**	**-**	**-**	**-**	**-**	**-**	**14,860**
Total	**610,084**	**(49,971)**	**-**	**(49,971)**	**50,037**	**(9,766)**	**600,384**

	March 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	101,944	(1,038)	-	(1,038)	-	-	100,906
Public sector	8,601	-	-	-	1,964	-	10,565
Banking corporations	15,663	(762)	-	(762)	16,153	(327)	30,727
Corporations	177,036	(1,361)	-	(1,361)	14	(6,859)	168,830
Secured by commercial real estate	94,203	(46)	-	(46)	-	(422)	93,735
Retail to individuals	111,876	(14,675)	-	(14,675)	-	(1,717)	95,484
Small businesses	13,810	(235)	-	(235)	-	(1,040)	12,535
Housing loans	69,231	-	-	-	-	-	69,231
Securitization	188	-	-	-	-	-	188
Others	15,703	-	-	-	-	-	15,703
Total	608,255	(18,117)	-	(18,117)	18,131	(10,365)	597,904

(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-17: 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-18: Details of credit exposures of the Bank arising from derivatives

	March 31, 2017					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives[1]	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**6,818**	**4,514**	**4,843**	**7**	**6**	**16,188**
Add-on values	**3,312**	**4,436**	**1,202**	**1**	**22**	**8,973**
Effect of netting agreements	**-**	**-**	**-**	**-**	**-**	**(11,059)**
Eligible collateral	**-**	**-**	**-**	**-**	**-**	**(1,599)**
Net credit exposure	**10,130**	**8,950**	**6,045**	**8**	**28**	**12,503**

(1) The data as at March 31, 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.

	March 31, 2016					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	9,091	4,088	883	11	65	14,138
Add-on values	3,030	4,993	804	2	90	8,919
Effect of netting agreements	-	-	-	-	-	(13,092)
Eligible collateral	-	-	-	-	-	(1,034)
Net credit exposure	12,121	9,081	1,687	13	155	8,931

	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-19: Details of face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio

	March 31, 2017		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	**50**	**127**	**177**

	March 31, 2016		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	50	132	182

	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 182 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 March 31, 2017, amounted to NIS 182 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 March 31, 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 March 31, 2017.

Market Risk

Market risk is the risk of loss or decline in value arising from change in the economic value of a financial instrument, or of a particular portfolio or group of portfolios; and on the general level, a change in the economic value of the Bank 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 March 31, 2017.

Risk Estimates of Trading Activity (VaR)

Table D-20: Risk estimates of trading activity (VaR)

	March 31, 2017	**Average in 2017**
	NIS millions	
Total trading in dealing rooms	**13**	**14**

	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-21: Capital requirements in respect of market risks

	March 31, 2017[(1)]			March 31, 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	**1**	**403**	**404**	3	381	384	2	341	343
Share risk	**8**	**8**	**16**	6	6	12	7	7	14
Foreign currency exchange-rate risk	**-**	**115**	**115**	-	153	153	-	144	144
Option risk	**-**	**174**	**174**	-	96	96	-	116	116
Total	**9**	**700**	**709**	9	636	645	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 March 31, 2017; 12.67% as at December 31, 2016; and 12.59% as at March 31, 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 definitions of 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-22: Details of the Bank's investments in shares in the banking book

	March 31, 2017		March 31, 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	**61**	**[2]16**	46	[2]12	54	[2]14
Investments classified into the available-for-sale portfolio	**2,225**	**333**	2,412	334	2,202	308
Total investments in shares	**2,286**	**349**	2,458	346	2,256	322
Of which: Traded on the stock exchange	**1,436**		1,738		1,367	
Privately held	**850**		720		889	
Unrealized gains included in supervisory capital	**302**		169		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 March 31, 2017; 12.67% as at December 31, 2016; and 12.59% as at March 31, 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 March 31, 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 March 31, 2017.

Table D-23: 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)

	March 31, 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	**(310)**	**372**	**(34)**	**(310)**	**372**	**(257)**	**315**
Change in unlinked interest rate:	**(87)**	**126**	**(10)**	**(127)**	**168**	**(87)**	**126**
Change in foreign-currency interest rates	**(27)**	**31**	**(3)**	**(31)**	**36**	**(21)**	**25**

	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)	31	(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 the interest-rate curve, without taking 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, without 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 March 31, 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.

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 March 31, 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 March 31, 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 March 31, 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 the ability 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 March 31, 2017	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**116,017**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**187,833**	**14,609**
Stable deposits	**59,301**	**2,965**
Less stable deposits	**91,476**	**10,542**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**37,056**	**1,102**
Unsecured wholesale financing, of which:	**115,476**	**73,094**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**1,622**	**406**
Non-operational deposits (all counterparties)	**113,003**	**71,837**
Unsecured debts	**851**	**851**
Secured wholesale financing	**44**	**-**
Additional liquidity requirements, of which:	**101,068**	**20,765**
Outflows related to derivative exposure and other collateral requirements	**14,173**	**12,524**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**86,895**	**8,241**
Other contractual funding obligations	**12,806**	**12,806**
Other contingent funding obligations	**56,604**	**1,930**
Total cash outflows		**123,204**
Cash inflows		
Secured lending (e.g. reverse repos)	**259**	**259**
Inflows from fully performing exposures	**28,996**	**21,628**
Other cash inflows	**15,432**	**10,928**
Total cash inflows	**44,687**	**32,815**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**116,017**
Total net cash outflows	**90,389**
Liquidity coverage ratio (%)	**128%**

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations. The number of observations used for the average in the reported quarter is 64.

** 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. The number of observations used for the average in the reported quarter is 64.

*** 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 March 31, 2016	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		91,165
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	185,669	14,110
Stable deposits	56,451	2,823
Less stable deposits	87,561	10,049
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	41,657	1,238
Unsecured wholesale financing, of which:	110,226	66,397
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,523	381
Non-operational deposits (all counterparties)	108,434	65,747
Unsecured debts	269	269
Secured wholesale financing	41	-
Additional liquidity requirements, of which:	117,259	21,891
Outflows related to derivative exposure and other collateral requirements	13,275	11,472
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	103,984	10,419
Other contractual funding obligations	10,879	10,879
Other contingent funding obligations	57,683	2,230
Total cash outflows		115,507
Cash inflows		
Secured lending (e.g. reverse repos)	233	233
Inflows from fully performing exposures	26,568	18,018
Other cash inflows	17,334	10,354
Total cash inflows	44,135	28,605

	Total adjusted value***
Total high-quality liquid assets (HQLA)	91,165
Total net cash outflows	86,902
Liquidity coverage ratio (%)	105%

* 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 64. 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 128%, consolidated, and 122% for the stand-alone banking corporation, while the minimum requirement is 100%. The ratio rose during the first quarter as compared to the preceding quarter, due to an increase in liquid assets, as a result of an increase in deposits exceeding the increase in credit (based on quarterly averages). 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 March 31, 2017.

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

	Balance as at March 31, 2017	**Average in the quarter ended March 31, 2017**
Level A assets	**112,329**	**115,186**
Level B1 assets	**496**	**479**
Level B2 assets	**321**	**352**
Total HQLA	**113,146**	**116,017**

	Balance as at March 31, 2016	Average in the quarter ended March 31, 2016
Level 1 assets	93,081	90,125
Level 2A assets	314	405
Level 2B assets	653	635
Total HQLA	94,048	91,165

	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 March 31, 2017		
	Total balance in the balance sheet	Of which: pledged**	Of which: unpledged
Cash and deposits with banks	**77,088**	**1,177**	**75,911**
Israeli government bonds	**52,754**	**4,970**	**47,784**
Foreign government bonds	**9,172**	**402**	**8,770**
Bonds of financial institutions in Israel	**505**	**-**	**505**
Bonds of foreign financial institutions	**6,835**	**-**	**6,835**
Bonds of others in Israel	**716**	**-**	**716**
Bonds of foreign others	**2,626**	**43**	**2,583**
Shares of others	**2,286**	**-**	**2,286**
Total securities	**74,894**	**5,415**	**69,479**

* In addition, other assets in the amount of NIS 861 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, May 23, 2017