Annual Report

Report for 2016

Bank of Jerusalem Ltd. and its Consolidated Companies

Contents

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Remarks by the Chairman of the Board

Dear Shareholders,

On behalf of the Board of Directors and myself, I am honored to present you with the Board of Directors' Report and Financial Statements of Bank of Jerusalem for 2016.

In 2016, the Bank continued implementing its multi-annual strategic plan, with an emphasis on innovation and providing solutions for market trends and regulatory requirements, while meeting its business goals.

In 2016, the Bank achieved a rate of return on equity for its shareholders at a rate of 7.0%.

Dividends paid to shareholders in 2016 amounted to a total of NIS 13.8 million.

The Banking System in Israel

The banking system continues to demonstrate stability and reasonable profitability, despite the uncertainty caused by the many regulatory changes and structural reforms which are intended to increase competition in the banking services segment in general, and competition between banks over the household segment in particular.

The recommendations of the Strum Committee to increase competition over common banking and financial services in Israel, and to reduce concentration in the banking industry, were adopted as binding law. Inter alia, the committee's recommendations were adopted to work towards diversifying the credit sources which are available to households and medium businesses, with the aim of reducing credit costs by creating competition between banking and extra-banking credit sources, as well as a recommendation to separate the credit card companies from the banks.

The Commissioner of Banks also presented an ambitious program to increase competition in the banking system and to remove barriers to entry into the banking world, including, inter alia, the separation of credit card companies from the two large banks, the issuance of a permit to the banks allowing them to distribute insurance products, providing the option for credit card companies to enter the retail credit market, the establishment of a consumer credit database, the application of deposit insurance, and additional easements pertaining to communication services. The Banking Supervision Department also distributed an outline for the creation of a new bank in Israel, and additionally, the banks were required to submit to the Bank of Israel a multi-annual increased operational efficiency.

The structural reforms and planned changes, which are intended to increase competition, pose significant challenges to the banking system, while also allowing it to develop various new business opportunities.

In 2016, the Knesset enacted The Remuneration for Corporate Officers in Financial Corporations Law, which restricts salary costs. As observed to date, this legislation has not had a significant impact on the financial system. The foregoing had no impact on the Bank of Jerusalem.

These developments, along with the global boom in the "fintech" industry, represent the increased momentum in the financial technological services industry, create challenges and opportunities for the banking system, along with expansion of the financial arena, and increased scopes of financial activity in the economy.

2016 appeared to be another strong year in the mortgage market. The overall scope of new mortgages taken by households in 2016 amounted to a total of approximately NIS 60 billion, as compared with approximately NIS 65 billion in 2015.

The trend of stability in the mortgage portfolio in the banking system continued also in 2016, the provision rates in the portfolio are low, the average rate of return on available income amounts to approximately 25%, and the average financing rate amounts to approximately 50% of the asset value.

Due to capital constraints which are derived from the obligation to meet the as capital adequacy ratios required in accordance with regulatory directives, the banks sold, in 2016, to institutional entities, shares of their mortgage portfolios at a total financial scope of approximately NIS 5 billion, and acquired insurance covers to mitigate credit risks at significant scopes.

Bank of Jerusalem - Results and Developments in 2016

In 2016, the Bank continued successfully implementing the multi-annual strategic plan which was refreshed during the year, while maintaining an adequate level of profitability with respect to the Bank's activity characteristics and risk profile, despite the changing market conditions and the low interest rate environment. At the same time, management continued implementing the Bank's increased efficiency and development processes.

The Bank's net profit for 2016 amounted to a total of NIS 55.6 million, while the return on equity rate amounted to 7.0%, in accordance with the Bank's risk appetite, and in accordance with the expectations in light of changing market conditions, including increased competition in the banking system.

The rate of the increase in income for 2016 amounted to 7.6%, while the rate of the increase in operating expenses amounted to 6.2%. The ratio between the increase in revenue and the increase in operating expenses reflects an improvement of 1.0 percentage points in the efficiency ratio.

The balances in the Bank's net credit portfolio amounted, as of the end of 2016, to a total of approximately NIS 10 billion, similarly to the end of 2015.

The Bank's credit portfolio is a high-quality portfolio characterized by significant distribution. The share of retail credit out of the entire portfolio amounts to approximately 82%, most of which is housing credit backed by real estate properties.

Along with the significant distribution, the quality of the Bank's credit portfolio is also reflected in the relatively low rate of the annual provision for credit losses, which amounted, in 2016, to 0.3% (as compared with 0.4% in 2015).

In 2016, the Bank continued to increase and strengthen its capital base, and at year end, the ratio of total capital to risk components amounted to 14.5%, while the leveraging ratio amounted to approximately 5.3%.

Bank of Jerusalem - Developments and trends in the last 5 years

The main data are as follows:

	2016	2011	
	NIS millions		Change in percent
Total balance sheet	14,202	11,482	23.7%
Credit to the public, net	9,790	9,058	8.1%
Public deposits	10,868	9,065	19.9%
Equity*	808	644	25.5%
Revenues	511	298	71.4%
Expenses	386	224	72.3%
Net profit	56	45	24.4%
Return on capital	7.0%	7.0%	-
Efficiency ratio (operating and other expenses out of total income)	76%	75%	(1.0) percentage points
Tier 1 capital adequacy ratio	10.1%	9.1%	1.0 percentage points
Number of employees	623	463	34.6%

* After a dividend distribution in the total amount of NIS 87.3 million during the aforementioned five year period.

Data regarding the Bank's development over the last five years indicate an increase in activity at a rate of 23.7%, which led to an impressive increase in income, at a rate of 71.4%, as well as in net profit - an increase from NIS 45 million at the end of 2011, to NIS 56 million at the end of 2016, reflecting an increase of 24.4%. These profits reflect a return on capital rate of 7.0%. This impressive development reflects the successful implementation of the Bank's multi-annual strategy, including focusing on retail activity, which constitutes the basis for Bank of Jerusalem's status as a unique retail bank. In parallel with its growth, the Bank also continued its implementation of the increased efficiency process in 2016.

Business Strategy

The Bank's strategic plan, which was updated in 2016, relies on three layers:

A. Shareholders - maximizing value for shareholders, a dividend distribution policy at a rate of 30% of profit, subject to the fulfillment of the distribution tests and in accordance with the conditions set forth in the provisions of the law, while maintaining adequate and stable profitability, and a low risk profile.

B. Customers - Focus on retail activity specialized in mortgages, continued development and improvement, while maximizing value for customers.

C. Employees - cultivation and promotion of human capital, managers and employees.

The strategy is centered on controlled retail growth, while focusing on specialized activities in housing loans, and continuing the development of the consumer credit activity. The plan is focused on maintaining a low risk profile, as reflected in the mix of activities, the capital adequacy ratio, the liquidity ratios and a higher leveraging ratio than the minimum ratio which is required under the regulatory directives.

In consideration of the characteristics and mix of the Bank's activities, and in light of the regulatory and technical barriers which prevent full transition to remote banking services, the Bank will continue relying on the network of branches for the provision of banking services to its customers, while implementing technological improvements and expanding remote banking services for the convenience of customers.

All of the above, along with the provision of personal, professional, effective and rapid service, in a variety of advanced and high-quality banking products, result in excellent service and the creation of value for the Bank's customers, the core values of Bank of Jerusalem.

Goals and Trends for the Coming Year

In 2017, the Bank intends to continue implementing its retail strategy which was updated in 2016, and which primarily involves providing housing loans and consumer credit, while continuing its cultivation of a deep commitment to the household segment, along with innovation in products and services. The Bank also intends to expand its customer base, its activities with securities, and additional banking services which it provides to its customers. All of the above will contribute to the maximization of value for customers.

The growth targets which were defined for the credit portfolio in 2017 were determined in accordance with the developments in the economy, and in accordance with the Bank's risk appetite policy.

The main goals defined by the Bank for 2017 include maintaining the capital adequacy ratios, while meeting a minimum overall capital adequacy ratio of 13.5%, which was defined by the Board of Directors as a target by the end of 2017, while also maintaining an adequate leveraging ratio of 5.1%, and stable liquidity ratios.

In 2017, the Bank intends to continue implementing the increased efficiency measures, including encouraging customers to use technological means of communication with the Bank, inter alia by means of video branches, internet and additional digital means, with the aim of minimizing the dependence on physical branches, increasing the efficiency of operations, and improving service.

Corporate Governance

The Bank attributes primary importance to conduct in accordance with corporate governance rules, including appropriate conduct of the Board of Directors, while ensuring compliance with all provisions of the law. In accordance with this policy, the Bank ensures the implementation of rules and provisions which apply to it at a high standard, which define, inter alia, the set of relationships between the Board of Directors, management, and audit and control entities, and are reflected in the organizational structure, the definition of areas of responsibility and authority, work policies and rules for reporting, supervision, control and auditing.

The Bank also continuously strives to implement and apply an appropriate organizational culture, in accordance with the very highest standards of banking.

Cultivation of Human Resources and the System of Working Relationships

As a bank which views human resources as its most important asset, the Bank continued, also in 2016, promoting and developing the quality of human resources and the cultivation of the system of working relationships, which constitute a strategic asset for the Bank over the years.

During 2016, the Bank launched an extensive training process for managers in the Bank, which will continue in 2017 as well.

The employee committee plays an important part in leading the Bank towards achieving its business goals. The positive working relationships which have existed in the Bank for years reflect the mutual trust and the fruitful collaboration between management and the employee committee, and which, along with fair and appropriate work conditions, contribute to the Bank's success and advancement.

The Board of Directors also approved an updated remuneration policy for the years 2017-2019, which corresponds to the regulatory changes and strategic goals in the coming years.

Corporate Responsibility

Bank of Jerusalem, which was founded over 50 years ago, is committed to the areas of corporate responsibility, and for many years has incorporated them as an integral part of its business activities. This commitment reflects an approach according to which business success goes hand in hand with social-environmental considerations, which have increased in focus in recent years, and has also been incorporated into the overall strategy of the Bank, which has established at its core the values of transparency and fairness in the provision of banking services.

Within the framework of its corporate responsibility, the Bank also works to promote the well being of its employees, as well as their professional and personal development, to create value for the community, inter alia, through donations to associations and organizations which strive to promote social goals, to develop social awareness among its employees and to encourage them towards social involvement. The Bank applies advanced principles of corporate governance to its conduct, as well as principles involving an ethical and moral culture of its employees, managers and Board members.

We are committed to our shareholders, customers, employees and to the society of Israel, the source of our strength.

The corporate responsibility report for 2015, which was published this year, was prepared for the first time in accordance with the international standard regarding reporting of corporate responsibility: the G4 standard of the Global Reporting Initiative (GRI).

Looking towards the future, all of us - the Board of Directors, management and employees of the Bank - will continue working towards developing and advancing the Bank, and maximizing value for its shareholders and customers, while upholding the values of excellence in service, fairness and transparency, and dealing with the challenges which we will face in the coming years.

On behalf of myself and the Board of Directors, I wish to thank the Bank's customers, who have given us their trust throughout every step of the way, as well as the Bank's CEO and members of management, and, of course, tremendous thanks to all of the Bank’s employees, for their professional, loyal and dedicated work, and for their contribution to the Bank's success.

Sincerely,

Zeev Nahari
Chairman of the Board of Directors

February 28, 2017

Members of the Bank's Board of Directors

Bank of Jerusalem

Zeev Nahari, C.P.A.
Chairman of the Board [(2)]

Zalman Shoval [(2)]

Yehuda Orbach, C.P.A. [(3)]

Dr. Ruth Arad [(3) (4)]

Shmuel Eshel [(3)]

Moshe Bauer [(2)]

Lior Ben Ami [(2) (4)]

Ram Harmelech [(2)]

Ira Sobel, C.P.A. [(5)]

Dr. Nurit Krauss [(5)]

Gideon Shoval [(2)]

(1) Additional details regarding the members of the Bank's Board of Directors are presented in the Bank's periodic report for 2016, and on the MAGNA website of the Israel Securities Authority athttp://www.magna.isa.gov.il. For information regarding changes to the composition of the Board of Directors during the reporting period, see the chapter on the Board of Directors in the report regarding corporate governance and additional details.
(2) In the Bank's annual general meeting of shareholders which was held on December 20, 2016, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. Zeev Nahari (Chairman of the Board), Zalman Shoval, Gideon Shoval, Moshe Bauer, Ram Harmelech and Lior Ben Ami.
(3) Outside director in accordance with the Companies Law, 5759-1999.
(4) Tenure commenced on April 10, 2016.
(5) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.

Members of the Bank's Management and Their Positions

Bank of Jerusalem

Members of the Bank's Management

Gil Topaz, Adv. and C.P.A.
CEO

Michael Tayer
Executive VP, Resources Division Manager

Michael Ben Yishai (2)
Vice President, Chief Risk Officer, Risk Division Manager

Sarit Weisstuch, Adv.(3)
Vice President, Legal Advisor, Manager of the Legal Consulting, Compliance and Enforcement Department

Alexander Saltzman, C.P.A.
Vice President, Chief Accountant, Monetary Division Manager

David Levy(4)
Vice President, Retail Division Manager

Moshe Omer
Vice President, Financial Division Manager

Corporate officers who are not management members

Ron Sagi
Vice President, Chief Internal Auditor

Carmel Florenz, Adv.
Secretary of the Bank and its Subsidiaries

Hagar Peretz Dayan (5)
Manager of the Bank's CEO, Headquarters, Marketing and Strategy Division

Ayelet Rusk
Real Estate Sector Department Manager

Kost Forer Gabbay & Kasierer
The Bank's Auditors

(1) Additional details regarding the Bank’s corporate officers (who are not directors) are presented in the Bank's periodic report for 2016, and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.
(2) Mr. Ben Yishai will discontinue serving in his position as the Chief Risk Officer on March 1, 2017, and from that date onwards, Ms. Dafna Landau will serve as Chief Risk Officer.
(3) Ms. Sarit Weisstuch was appointed, on February 9, 2017, as the Manager of the Legal Consulting, Compliance and Enforcement Department (previously served as the Legal Department Manager).
(4) Began serving on November 1, 2016.
(5) Began holding office on September 29, 2016.

Report of the Board of Directors and Management

Report for 2016

Bank of Jerusalem Ltd. and its Consolidated Companies

Report of the Board of Directors and Management - Table of Contents

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Report of the Board of Directors and Management as of December 31, 2016

Presented below is the annual report of Bank of Jerusalem Ltd. This report will be presented for discussion to the Bank's annual general meeting of shareholders.

The Board of Directors resolved, in its meeting on February 28, 2017, to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. (hereinafter: the "Bank" or "Bank of Jerusalem") and its subsidiaries for 2016 (hereinafter: the "Reporting Year"). The reports have been prepared in accordance with public reporting regulations issued by the Commissioner of Banks, and data is us presented based on reported amounts.

Forward looking information

Some of the information provided in the Board of Directors' Report, which does not refer to historical facts, constitutes forward looking information as defined in the Securities Law, 5728-1968.

The Bank's actual results may differ significantly from the results which were included, if any, in the forward looking information, due to many different factors, including, inter alia, due to extraordinary economic events, such as extreme changes in interest rates, rise / fall of the currency and inflation, as well as unexpected security / political events, which could change the public's conduct, including in terms of the scope of credit taking, early repayments, refinancing or difficulties in routine repayment, in all of the Bank's operating segments, and also in terms of the ability to raise sources. Additionally, changes in regulation, in legislative provisions, in directives issued by supervised entities, and the conduct of competitors, may affect the Bank's activities.

Forward looking information is characterized by words or phrases such as "the Bank believes", "the Bank intends", "expected", "may", "could", "assessment", and similar phrases which indicate the meaning of a forecast regarding the future, and not historical facts.

Such forward looking phrases are associated with risks and uncertainty, due to the fact that they are based on management's assessment regarding future events, including, inter alia:

- Mergers and acquisitions in the banking system, and their impact on the structure of competition in the segment.
- The impact of changes in regulatory provisions on customer preferences and/or on the scope of operations in the banking system and the structure of competition therein, and/or on the Bank's profitability.
- The possibility of realizing the Bank's plans in accordance with the determined targets, in accordance with the Bank's strategy.
- Unexpected responses by additional entities (customers, competitors, and others) who operate in the Bank's business environment.
- The future realization of forecasts in the sector and of macro-economic forecasts, in accordance with the Bank's early assessments.
- Possible results of legal proceedings.
- Changes in the preferences and/or behavior of consumers.

The information presented below relies, inter alia, on the Bank's professional assessments, on macro-economic forecasts by forecasters regarding the situation of the economy and the business environment, on publications and assessments by entities in the segment and on statistical analyses conducted by the Bank regarding the conduct of its customers.

The above reflects the perspective of the Bank and its subsidiaries as of the preparation date of the financial statements, with respect to future events, which is based on assessments that are uncertain. These data and assessments are used to derive the assessments of the Bank and its subsidiaries, and their business plans. As stated above, actual results may differ significantly and could have implications on the realization of the business plans, or may result in the implementation of changes to those plans.

The Bank does not commit to publish an update regarding the forward looking information which is included in these reports.

Chapter 1 - General Survey, Goals and Strategy

1.1 Summary description of the Bank and its main operating segments

Bank of Jerusalem Ltd. was founded in 1963 as a public company, as defined in the Companies Ordinance (New Version), 5743 - 1983, under the name Bank of Jerusalem for Development and Mortgages Ltd. In 1992, the Bank performed its initial public offering of stocks, and thereby became a company traded on the Tel Aviv Stock Exchange Ltd. In 1996, the Bank's name was changed to the current name. For details regarding the Bank's controlling shareholders, see the report regarding corporate governance and additional details.

The Bank constitutes a banking corporation, holds a banking license in accordance with the Banking Law (Licensing), 5741 - 1981, and has operated as a commercial bank since 1998. The Bank relies on a broad customer base which includes households, Israeli residents and foreign residents, and operates in the following segments: mortgages, consumer credit, savings and deposits, financing of residential construction and activities on the capital market.

This activity is performed through the operating segments in which the Bank operates. See below in the chapter regarding the description of the banking corporation's business by supervised operating segments.

The Bank's headquarter offices are located in Airport City. As of the publication date of the report, the Bank operates by means of 24 branches, which are distributed throughout Israel.

1.2 Condensed financial information regarding the financial position and results of operations

	For the year ended December 31				
	2016	2015	2014	2013	2012
Key performance indicators (in percent):					
Net profit returns to equity	7.0%	6.3%	9.0%	1.8%	4.9%
Returns - comprehensive income to equity	4.8%	6.6%	10.8%	2.0%	4.8%
Return on assets	0.39%	0.35%	0.49%	0.10%	0.28%
Tier I capital ratio	10.1%	9.7%	9.8%	9.3%	9.7%
Leveraging ratio	5.3%	5.2%	- (1)	- (1)	- (1)
Liquidity coverage ratio	458%	403%	- (1)	- (1)	- (1)
Efficiency ratio (operating and other expenses out of total income)	75.6%	76.7%	75.8%	80.5%	75.1%
Key credit quality indicators (in percent, out of credit to the public):					
Rate of expense to credit losses	0.31%	0.41%	0.19%	0.57%	0.37%
Balance rate of the provision for credit losses	1.04%	1.12%	1.12%	1.12%	0.94%
Rate of impaired debts or debts in arrears of 90 days or more	2.01%	2.04%	2.64%	3.36%	3.71%
Rate of net accounting write-offs	0.37%	0.38%	0.20%	0.38%	0.39%
Main data from the statement of income (NIS millions):					
Net profit attributed to the shareholders of the banking corporation	55.6	48.6	65.0	12.7	33.2
Interest income, net	343.0	334.1	317.0	257.2	230.9
Expenses with respect to credit losses	30.4	40.4	18.4	54.7	36.0
Non-interest income	167.8	142.7	147.9	106.5	113.4
Of which: Fees	120.9	124.5	118.3	91.4	90.2
Operating and other expenses	386.5	365.8	352.4	292.6	258.4
Of which: Payroll and associated expenses	173.4	166.3	171.2	152.9	141.6
Net earnings per share (basic and diluted) (in NIS)	0.79	0.69	0.92	0.18	0.47
Main data from the balance sheet, as of the end of the reporting year (NIS millions):					
Total assets	14,202.0	14,219.5	14,084.8	13,459.8	12,287.7
Of which: Cash and deposits in banks	2,522.0	2,071.9	3,278.0	2,833.4	1,360.6
Securities	1,434.5	1,779.5	902.4	676.6	1,163.0
Credit to the public, net	9,790.1	9,889.3	9,566.5	9,626.6	9,581.4
Total liabilities	13,393.7	13,435.5	13,334.4	12,769.3	11,597.4
Of which: Deposits from banks	36.5	39.4	42.5	51.5	63.3
Deposits from the public	10,868.3	11,019.0	10,977.2	11,071.1	9,813.7
Bonds and deferred liability notes	1,582.1	1,634.8	1,503.1	1,406.0	1,581.0
Equity attributed to the shareholders of the banking corporation	808.3	784.0	750.4	690.5	690.3
Additional data:					
Share price (in NIS)	769.4	707.0	705.0	559.0	484.9
Dividend per share (in NIS 0.01)	19.57	24.26	25.10	19.43	35.46
Number of employees	623	607	597	550	509
Ratio of fees to assets	0.85%	0.88%	0.84%	0.68%	0.73%

(1) This directives regarding this disclosure apply as of April 1, 2015. In accordance with the directives issued by the Commissioner of Banks, disclosure is not required for comparative figures.

(2) This information includes a correction to comparative figures for the years 2012-2014. For additional details regarding the correction of comparative figures, see Note 1F and 1G to the financial statements.

Presented below are the changes to main sections (in percent):

	2016 as compared with 2015	2016 as compared with 2012
Total income	7.1%	48.4%
Total operating and other expenses	5.7%	49.6%
Provision for credit losses	(24.8%)	(15.6%)
Net profit	14.4%	67.5%
Credit to the public, net	(1.0%)	2.2%
Public deposits	(1.3%)	10.8%
Equity*	3.1%	17.1%
Net profit returns to equity	0.7 percentage points	2.1 percentage points
Tier 1 capital ratio	0.4 percentage points	0.4 percentage points

* 2016 relative to 2015, following the dividend distribution in the amount of NIS 13.8 million.
* 2016 relative to 2012, following the dividend distribution in the amount of NIS 62.3 million.

1.3 Summary description of the main risks to which the Bank is exposed

Identification of leading and developing risk factors

In accordance with the Bank's various risk management policy documents, and Proper Banking Management Directives issued by the Bank of Israel, the risks to which the Bank is exposed are monitored on an ongoing basis. This monitoring is intended to ensure adequate preparation for risk management, prevention of the realization of risks, and monitoring the Bank's compliance with the restrictions which were determined by the Board of Directors and the Bank of Israel. The Bank also closely monitors development in financial markets, in macro-economic indicators and in regulation and legislation which apply or which may apply to and affect the Bank, and which, together with the current business strategy and mix of activities, may expose the Bank to significant risks. In handling the identified risks, the Bank distinguishes between, inter alia, leading risks and developing risks which are identified in the following manner:

- **Leading risk -** represents a significant risk factor to which the Bank is exposed due to its current activities or agreements to which the Bank is party, the Bank's exposure to which is rated, in accordance with the Bank's policy, as "medium" or higher level of exposure. For details regarding the risk factors and the rating of the extent of the exposure / impact on the Bank, see below in the chapter regarding risks and risk management methods.
- **Developing risk -** represents a risk regarding which there is uncertainty regarding its materialization, if any; however, risks of this kind receive special attention from bank management in determining the business strategy and the appropriate framework for risk management.

Presented below is a table summarizing the developing risks in the Bank:

Risk	Risk description
Regulatory risk	The regulatory implications on all matters associated with the imposition of significant restrictions on the Bank's activities and the imposition of additional onerous requirements
Compliance risk	The risk that a corporation will be subject to the imposition of legal or financial sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply with consumer directives, taxation laws, and requirements regarding money laundering and terrorism financing.
Cyber risk	Possibility of cyber attacks on the Bank's IT systems and websites
Macro-economic risk and market risk	Risk that the Bank may be affected by a deterioration in the macro-economic data in Israel and other market risks, primarily due to unemployment rates.

Description of developing risks and management thereof

- **Regulatory risk:** In recent years, several regulatory initiatives have been formulated, which deal with, inter alia, the implementation of the provisions of the Basel III Accords, the imposition of restrictions on the provision of housing loans, and requirements with respect to the Bank's leveraging ratio. Additional requirements, or alternatively, hardening of current requirements in these areas, may pose an effective restriction if they are strictly applied to the Bank, and may impose difficulties on the Bank's implementation of its business strategy.

  The Bank manages business activities within the framework of adjusted capital planning in accordance with the requirements of the Banking Supervision Department, while maintaining capital targets beyond the minimum requirement. In parallel, the Bank works to implement tools to reduce the risk assets, improve risk management practices and reduce capital requirements. For details regarding the Bank's capital planning, see below in the chapter regarding capital and capital adequacy.

  There are also initiatives by the Banking Supervision Department which are intended, inter alia, to increase competition and operational efficiency in the Israeli banking system. The initiatives and regulatory trends may affect the banking system in general, and the Bank in particular. At this stage, it is too early to estimate and assess the impact they could have on the Bank.

- **Compliance risk:** Continuation of the trend involving the imposition of fines and sanctions on banks in connection with breaches of regulatory directives, including regarding assistance with tax evasion and the prevention of terrorism financing and banks, constitutes a center of focus for bank management on all matters associated with the Bank's ongoing efforts to strengthen practices associated with the management and prevention of these risks. The Bank also dedicates increased attention to the developing risk on all matters associated with bank - customer relationships and practices involving the initiation of contact with customers and the provision of customer service (conduct risk). The Bank has a compliance unit which is responsible for working towards the prevention and management of these risks in accordance with the Bank's corporate governance and in accordance with the directives and guidelines issued by the Banking Supervision Department.

- **Cyber risk:** The Bank is exposed, as are the other banks in the banking system in Israel, to cyber attack and cybernetic incidents. This constitutes one of the material non-financial risks to which the banks are exposed, due to the possibility of a cyber attack on the Bank's IT systems and the Bank's website, which may cause harm to the ability to continue providing service to cause delays in the provision of service, theft of customer data and harm to the Bank's reputation. The damages caused with respect to these events may also involve the Bank's exposure to legal claims and/or harm to the customer base. For details regarding a cyber event which occurred in 2016, see Note 35 to the financial statements.

- **Macro-economic and market risk:** The Bank's activities primarily depend upon the business and macro-economic environment in Israel. The state of the economy in Israel, the security-political situation in Israel and of the region, and, as a result, the income level of households and the unemployment rate, are the main risk factors affecting the quality of the credit portfolio in banks which operate with retail credit and housing credit. At this stage, the Bank believes that there is no significant risk, in light of positive macro-economic indicators in Israel. However, the Bank's multi-annual strategic plan, and extreme scenario models, take into account, with due caution, the risks which still exist in the Israeli economy, and implements a balance between performance considerations for conservative and cautious capital planning, and return to risk considerations.

1.4 Description of goals and business strategy

The Bank has a strategic plan which is centered on controlled growth while focusing on retail activity specialized in mortgages and continued development of consumer credit. The strategic plan was updated in June 2016 by the Bank's Board of Directors, and constitutes a continuation of the previous strategy which was launched in 2011 (hereinafter, in this report: the "Plan" or the "Strategic Plan").

The plan was formulated with reference to the entire set of changes in the Bank's business and competitive environment. An environment which is affected by changes in consumer habits, accelerated technological changes, regulatory changes and planned structural reforms. The Bank adjusted the strategic plan to these changes, and views them as a challenge, as well as an opportunity to develop new business opportunities.

The strategic plan is founded upon maintaining a low risk profile, as reflected in the mix of business activities, while diversifying customers and the sources of financial and operational revenue.

The plan balances between return to risk considerations, and is intended to maintain the Bank's stability and strength, to realize adequate profitability and measured growth, all while maximizing value for customers and interested parties.

Presented below are the Bank's main goals, as defined in the strategic plan:

- Maximizing value for shareholders, while maintaining the Bank's stability and strength, achieving adequate profitability, measured growth and a dividend distribution policy of approximately 30% of net profit.
- Focus on retail activity specializing in mortgages while continuing the development of consumer credit, along with innovation in products and services
- Maintaining a low risk profile - capital adequacy, liquidity and a leveraging ratio above the required regulatory minimum
- Increased operational efficiency
- Cultivating human capital, managers and employees

In order to realize the plan's objectives, as described above, the Bank operates through several avenues which were defined in the strategic plan:

- Expansion of the Bank's activity in the credit housing credit segment, which constitutes the core of the Bank's business focus. The Bank views housing credit as its main growth engine, and accordingly, will continue investing efforts in developing and expanding that activity.
- In the consumer credit segment, the Bank has continued the process which it commenced in 2010, which involves the provision of consumer credit to the Bank's existing customers and to new customers. This process gradually results in the distribution of the Bank's credit portfolio, which is focused on mortgages. The Board of Directors and management are continuing to monitor the credit risk with respect to this activity, including working to improve the underwriting models and implementing an ongoing lesson-learning process.
- Expansion of the activity and intensification of the Bank's specialization in securities, while leveraging the professional abilities. The Bank will continue offering high quality services and a positive and significant value offer to small retail customers, and will work to expand its customer base.
- The Bank provides credit to finance residential real estate projects according to the closed accompaniment method, with an emphasis on growth potential, and without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. These collaborations allow the Bank to increase its return on equity from this activity, while

reducing risk, and using the expertise which has accrued in the manager of large scope projects.

- The Bank will work to expand the operational revenue base through operational enterprises to expand the banking services.
- The Bank verifies that it meets the risk profile which it has determined for itself, while strictly monitoring and maintaining the capital adequacy ratio, liquidity ratios and routine evaluation of the mix and quality of the credit portfolio.
- The Bank works to improve the operational efficiency ratio, while maintaining a narrow and optimal cost basis, as part of the Bank's organizational culture.
- The Bank is continuing to invest in its IT capabilities, alongside use of technological resources in order to allow multi-channel communication with customers, with an emphasis on customer experience.
- The Bank works to expand the digital sale channels, while allowing access to demographic groups which are outside of its current customer environment. The Bank will continue working to reduce the dependence on physical branches, by upgrading the capability to market banking solutions through fully digital means, with no need to come to a physical branch. Accordingly, in the first half of 2016, the Bank launched a module which allows the creation of accounts for credit provision and deposits through mobile devices.
- The measured growth will be based on customer acquisition for financial products, regardless of the location where the customer's main checking account is managed. This approach is consistent with the Law to Increase Competition and Reduce Concentration in the Banking Industry in Israel, which is centered on reforms which are intended to encourage and facilitate the consumers' consumption of varies products which are not managed in the banks where the customer maintains their primary checking account.
- The Bank views its employees as partners on the path, and will continue striving to achieve its goals through openness and collaboration with the Bank's employees and managers.

The internal capital adequacy assessment process (ICAAP) and capital planning constitute a central part of the Bank's management of its business and risk management plan for the future. The capital planning process includes evaluating the impact of the strategic and business goals on the risk profile and on the corporation's required capital.

The Bank’s Board of Directors oversees the implementation of the strategic plans, and verifies correspondence to regulatory and market developments.

The Bank’s estimates and assessments, as described above, constitute forward looking information, and are based on various assumptions and forecasts which were available to the Bank’s Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. Influencing factors include forecasts and estimates concerning economic developments in Israel and around the world, and particularly concerning the state of the economy, including the effect of macro-economic and geo-political conditions and changes in capital markets, as well as various other factors which affect risk exposure, including: preferences of the public, directives issued by supervised entities and others, considerations associated with the Bank's image, technological developments and human resource issues.

Chapter 2 - Explanation and Analysis of Results and the Business Position

2.1 Trends, situations, developments and material changes

Developments in the economic environment

The Israeli economy grew in 2016 at a rate of approximately 4.5% (estimate of the Central Bureau of Statistics). The unemployment rate in Israel as of the end of 2016 amounted to 4.3%, as compared with a rate of 5.2% at the end of 2015.

In March 2015, the Bank of Israel decreased the Bank of Israel interest rate by 0.15%, to a rate of 0.1%, and it remained at his level until the end of 2016.

In 2016, the Tel Aviv 25 Index recorded a decrease of approximately 3.8%. The Tel Aviv 100 Index recorded a decrease of approximately 2.5%, while the index of government bonds recorded an increase of approximately 0.9%. This year, issuances and allocations of shares by Israeli companies in Israel and abroad amounted to approximately NIS 29.3 billion, decrease of approximately 25.4% as compared with the corresponding period last year.

In the last twelve months, the consumer price index (index in lieu) decreased by 0.2%. The NIS gained in value vs. the USD since the beginning of the year, at a rate of approximately 1.5%, and also gained vs. the EUR by approximately 4.8%.

According to the Central Bureau of Statistics, in the last year (November 2015 to November 2016), the house price index recorded an increase of 8.1%. In the first 11 months of 2016, approximately 27,130 new apartments were sold, a decrease of approximately 7.0% as compared with the corresponding period last year.

In the first quarter of 2016, the Bank of Israel announced the provision of regulatory easements with respect to housing loans to eligible individuals under the "Discount Residential" tenders. According to the amendment, in housing loans given for the acquisition of such apartments, a banking corporation is entitled to calculate the financing ratio of the loan based on an appraiser's appraisal, instead of based on the actual purchase price. In other words, the amendment allows the provision of mortgages for those apartments at a financing ratio of up to 75% of the price appraised by the appraiser, in other words, over 75% of the actual price. However, the impact of this process on apartment prices has not yet been felt.

In 2016, housing loans were created in the NIS segment of the banking system at an average interest rate of 2.86%, and in the CPI-linked segment at an average interest rate of 3.17%, as compared with 2.35% and 2.23% in 2015 (an increase of approximately 0.51 percentage points and 0.94 percentage points, respectively).

According to the data of the official receiver, in 2015, 14,756 receivership orders were issued, an increase of 12% relative to 2014, and an increase of 31% relative to 2013. From a multi-annual perspective, this is an increase which continued in several receivership orders, reflecting an increase of 43%, during a period of three years, and an increase of 137% during a time period of five years.

The Bank is preparing, in terms of both the credit underwriting and collection processes, with the aim of maintaining the risk profile which was defined by the Board of Directors.

On January 12, 2016, the Commissioner of Banks published a letter to the banking corporations regarding increased operational efficiency of the banking system in Israel. In the letter, the Commissioner expressed his position, according to which the level of efficiency in banks is low relative to banking systems in other developed countries, and therefore, he views increased efficiency measures as an important step towards ensuring the banks' stability. In light of the foregoing, the Bank's Board of Directors is required to prepare a multi-annual increased efficiency plan, including defined interim goals, which will reflect the long term commitment to efficiency at a level which is appropriate for the current economic environment.

In accordance with the Commissioner's letter, the Bank's Board of Directors approved an increased efficiency plan which the Bank is working to implement as part its current business efforts. As part of the aforementioned increased efficiency processes, the Bank places an emphasis on maximizing value for customers and selling financial solutions through digital channels to the customers of all banks. In light of the fact that Bank of Jerusalem is a retail bank specializing in the provision of credit to households, it is appropriate to evaluate its efficiency ratios relative to the ratio of income to expense in the banking system's retail segment. This comparison indicates an efficiency ratio in Bank of Jerusalem which is similar to the retail segment in the system.

For additional details regarding the Commissioner's letter, see the report regarding corporate governance and additional details in the chapter on legislative updates.

On January 31, 2017, the Law to Increase Competition and Reduce Concentration in the Banking Industry in Israel (Legislative Amendments), 5767- 2017, was published.

The law sets forth in legislation the recommendations of the committee for increased competition in common banking and financial services, which was established on June 3, 2015 (the "Strum Committee"), with the aim of removing barriers which currently exist in the banking system, to create new and independent players who can compete in the current banking system, and to encourage competition in the market of banking and financial services for the retail segment.

In parallel, the Banking Supervision Department published a new policy for removing barriers to entry to banking, while defining an outline for the creation of a new bank in Israel. This policy, along with the recommendations of the Strum Committee, apply together the Credit Data Law, which was approved by the Knesset in April 2016. The Credit Data Law determines that a central credit database will be created, under the responsibility of the Bank of Israel, which will contain data regarding households and small businesses. This database will assist in increasing competition in the retail credit market, expand accessibility to credit, and allow the expansion of information which is available to credit providers in their assessment of the customer's credit risk level.

The Bank is evaluating the implications of the proposed legislation on its activities. Some of the provisions of the law are expected to increase competition in the banking market, and may constitute an opportunity for the Bank. For additional details, see the report and additional details in chapter regarding legislative updates.

The Bank's activity characteristics during the reporting period

The Bank's business activities in 2016 were primarily performed in the retail division, the real estate sector and the financial division.

- The retail division serves, through the system of branches, household, private banking and small business customers. It is responsible for the operation of services through the direct channels, and concentrates the mortgage, consumer credit, customer assets and checking account activities. The division operates by means of traditional branches, video conference branches, call center and collection units, which provide the entire array of banking services.
- The real estate sector includes accompaniment for residential construction projects throughout the country, primarily according to the closed accompaniment method, the financing of urban renewal projects (including the various types of National Outline Plan 38) and the financing of purchasing groups. The sector operates in a department located in the Bank's headquarters, which concentrates all activities in the segment.
- The financial division is responsible for managing the sources for the Bank's activities, managing the

Bank's financial and liquid exposures which are due to business operations, including management of transaction rooms, management of the nostro portfolio and maintaining contact with Israeli and foreign financial institutions. The activity is divided between several departments: the financial management department, transaction room, securities department and securities and derivatives operation department.

Changes in the Group's structure and management approach

During the reporting year, no changes occurred in the Group's structure. For details regarding changes in the Group's management method, see the report regarding corporate governance and additional details.

Reference in the opinion given by the banking corporation's auditor regarding the financial statements

After approval was received from the Banking Supervision Department in the first quarter of 2016, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio on the acquisition date. For details, see Note F.1. to the financial statements. The auditor's opinion for 2016 included a reference to this subject.

Changes in critical accounting policy and in critical accounting estimates which have a significant impact (or are expected to have a significant impact) on the banking corporation's position and results of operations.

During the reporting year, no material changes were made to the critical accounting policy or to the critical accounting estimates which have a significant impact (or are expected to have a significant impact) on the banking corporation's position and results of operations. For details regarding the accounting policy, critical accounting estimates, controls and procedures, see below in chapter 4 of this report.

2.2 Material developments in income, expenses and other comprehensive income

Profit and profitability

Net profit in 2016 amounted to NIS 55.6 million, as compared with NIS 48.6 million last year, an increase of approximately 14%. Net profit returns over average equity amounted to 7.0%, as compared with 6.3% in the corresponding period last year.

Annual profit for 2016 was affected, inter alia, by the realization of available-for-sale bonds, which contributed approximately NIS 16.8 million, net, after tax (profit from the sale after deducting the potential current interest loss), as specified in Note 1F to the financial statements, while on the other hand by tax expenses in the amount of NIS 9.2 million, as a result of a decrease in the balance of deferred taxes, due to the change in the tax rate, as specified in Note 8 to the financial statements.

Interest income and expenses

Net interest income in the reporting year amounted to NIS 343.0 million, as compared with NIS 334.1 million in 2015 - an increase of approximately 3%. The increase was primarily due to the continued growth of the balance of consumer credit and the improvement in interest margins in housing loans, which was partially offset by the increased cost of resources.

Developments in income and expense rates

Presented below are the interest margins between monetary assets which generated income less costs on liabilities in the various linkage segments:

	2016	2015
Unlinked	3.03%	2.74%
CPI-linked (1)	2.25%	2.35%
Foreign currency and linked to foreign currency (2)	1.64%	1.91%
Total interest margin	**2.63%**	**2.51%**

Presented below is the scope of activities and contribution to net interest income of the various linkage segments:

	2016			2015		
	Scope of operations	Contribution to interest income, net		Scope of operations	Contribution to interest income, net	
	In percent	In percent	NIS millions	In percent	In percent	NIS millions
Unlinked	60%	68%	234.3	60%	65%	217.8
Linked (1)	28%	23%	79.1	28%	24%	81.3
Foreign currency (2)	12%	9%	29.6	12%	11%	35.0
Total	**100%**	**100%**	**343.0**	**100%**	**100%**	**334.1**

(1) Income in this segment also includes linkage differentials

(2) Income in the foreign currency segment does not include foreign currency differences on principal and the impact of derivative instruments.

For extensive details, see Annex 1 - Rates of interest income and expenses, in the chapter regarding corporate governance and additional details.

Expenses with respect to credit losses

Expenses with respect to credit losses in the reporting year amounted to approximately NIS 30.4 million, as compared with approximately NIS 40.4 million in the corresponding period last year, a decrease of approximately 25%. The decrease was primarily due to the decrease in the provision, which is calculated according to the extent of the arrears with respect to housing credit, due to the decrease in balances of troubled debt.

Presented below is the ratio of expenses with respect to credit losses for the period to total net credit to the public (including off-balance sheet credit risk):

	December 31	
	2016	2015
Expenses with respect to credit losses for the period out of total credit to the public, net	0.31%	0.41%
Of which: expenses with respect to collective provision out of credit to the public, net*	(0.02%)	0.10%
Expenses with respect to credit losses out of total credit risk	0.23%	0.30%

* Includes a provision with respect to housing loans, measured according to the extent of the arrears

For additional details, see below in the discussion regarding the development of credit to the public and the discussion regarding credit risk, as included in Chapter C - Risk Review, and Notes 13 and 30 to the financial statements.

Non-interest income

Non-interest income amounted to NIS 167.8 million, as compared with NIS 142.7 million in the corresponding period last year - an increase of approximately 18%, primarily due to the following reasons:

Non-interest financing income in the reporting year amounted to NIS 35.4 million, as compared with NIS 0.9 million in the corresponding period last year. the increase was due to the realization of available-for-sale bonds.

Commissions during the reporting year amounted to NIS 120.9 million, as compared with NIS 124.5 million last year, a decrease of approximately 3%. The decrease is primarily due to the decrease in commissions with respect to activities with securities, in the amount of approximately 8.4, inter alia, due to the decrease in trading volumes. On the other hand, commissions from project accompaniment increased in the amount of 3.7, due to the increase in the scope of managed projects.

Other income during the reporting year amounted to NIS 11.5 million, as compared with NIS 17.3 million last year, a decrease of approximately 33%. The income last year included income from the sale of buildings.

Expenses

Operating and other expenses in the reporting year amounted to NIS 386.5 million, as compared with NIS 365.8 million in the corresponding period last year - an increase of approximately 6%. The increase was primarily due to the increase in the increase in depreciation expenses and IT expenses, in light of the increased investment in the Bank's IT systems in recent years, and the increase in payroll expenses.

Payroll expenses in the reporting year amounted to NIS 173.4 million, as compared with NIS 166.3 million in the corresponding period last year. The increase was primarily due to the update to the salary agreement.

For additional details, see Notes 6, 7 and 16 to the financial statements.

Expenses and investments with respect to information technology systems [1], [2]

Presented below are details regarding expenses and investments in the information technology unit:

	2016	2015
Expenses which were recorded in the statement of income		
Expenses with respect to payroll and associated expenses	17.2	16.6
Depreciation expenses (software costs and IT equipment)	47.5	40.5
IT (other expenses)[3]	54.9	49.2
Total	**119.6**	**106.3**
Costs recorded as assets		
Discounting with respect to payroll and associated expenses	14.5	13.8
Additional software costs and IT equipment	36.4	36.0
Total	**50.9**	**49.8**
Balance of assets with respect to information technology system		
Depreciated cost (software costs)	121.0	116.3
Depreciated cost (IT equipment)	3.9	5.5
Total	**124.9**	**121.8**

(1) Information technology systems are as defined in Proper Banking Management Directive 357, "Management of information technology".

(2) For additional details regarding the Bank's information technology systems, see below in the report regarding corporate governance and additional details.

(3) Including payments for a securities infrastructure and trading platform.

Provision for taxes

The provision for taxes on operating income amounted in 2016 to a total of NIS 38.3 million. The effective tax rate in 2016 reached approximately 40.8%, as compared with the statutory tax rate in financial institutions of 35.9%, and as compared with the effective tax rate of 31.2% last year. The increase in the tax rate relative to the statutory tax rate was primarily due to the increase in deferred tax expenses in the amount of NIS 9.2 million, as a result of the change in the tax rate, as specified in Note 8 to the financial statements.

Developments in other comprehensive income items

Other comprehensive income (after tax impact) during the reporting year amounted to NIS 17.5 million, as compared with income of NIS 2.1 million in 2015, representing a decrease of approximately NIS 19.7 million, which was primarily due to realization of income of available-for-sale bonds during the reporting period. For details, see Note 10 to the financial statements.

For details regarding the negative capital reserve distributed by ranges of time periods and the decrease rate, see Note 12 to the financial statements.

Total comprehensive income amounted to NIS 38.1 million in 2016, as compared with NIS 50.7 million in 2015.

For additional details regarding profit and loss items for interim periods and for multi-annual data, see annexes 2 and 3 to the report regarding corporate governance and additional details.

2.3 Structure and development of assets, liabilities, capital and capital adequacy

The total balance sheet as of December 31, 2016 amounted to NIS 14,202 million, as compared with NIS 14,220 million at the end of 2015. A decrease of 0.1%.

Cash, deposits in banks and securities

The balance of liquid assets (cash, deposits in banks and securities) as of December 31, 2016, amounted to NIS 3,956 million, as compared with NIS 3,851 million at the end of 2015, an increase of approximately 3%.

The balance of cash and deposits in banks as of December 31, 2016 amounted to NIS 2,522 million, as compared with NIS 2,072 million at the end of 2015, an increase of approximately 22%.

Presented below is the development of the securities portfolio (in million of NIS):

	Balance as of December 31, 2015	Current movements (1)	Revaluation (2)	Balance as of December 31, 2016	Change in balances - %
Available for sale securities	1,211.4	(330.7)	(3.8)	876.9	(28%)
Marketable securities	568.1	(10.5)	-	557.6	(2%)
Total	**1,779.5**	**(341.2)**	**(3.8)**	**1,434.5**	**(19%)**

(1) Includes purchases, sales, redemptions and interest receipts.
(2) Includes realized and unrealized profits from adjustments to fair value of available for sale securities and marketable securities, interest income, rate differentials and revaluation.

Credit to the public

The net balance of credit to the public amounted as of December 31, 2016 to NIS 9,790 million, as compared with NIS 9,889 million at the end of 2015, representing an decrease of approximately 1%.

Presented below are the developments in the credit portfolio (NIS millions):

	Balance as of December 31, 2015	Performance during the period (1)	Repayments and portfolio sales of during the period (2)	Balance as of December 31, 2016	Change in balances - %
Housing credit	7,024	1,132	(1,142)	7,014	(0.1%)
Consumer credit - solo	866	634	(565)	935	8%
Total housing and consumer credit	**7,890**	**1,766**	**(1,707)**	**7,949**	**1%**
Business credit, excluding commercial assets	1,132	970	(1,148)(3)	954	(16%)
Credit for the acquisition of commercial assets	489	112	(140)	461	(6%)
Other	490	214	(175)	529	8%
Total credit to the public, gross	**10,001**	**3,062**	**(3,170)**	**9,893**	**(1%)**
Provision for credit losses	(112)			(103)	
Total credit to the public, net	**9,889**			**9,790**	**(1%)**

(1) Not including refinancing.
(2) Less accrual of interest, linkage differentials and rate differentials.
(3) Includes the sale of the credit portfolio to an insurance company in the amount of approximately NIS 109 million.

For additional details, see below in the discussion regarding the development of credit to the public and in the discussion regarding credit risks, included in Chapter 3.1 of this report, which is available on the Bank's website, and Notes 13 and 30 to the financial statements.

Public deposits

The balance of public deposits amounted as of December 31, 2016 to NIS 10,868 million, as compared with NIS 11,019 million at the end of 2015, a decrease of approximately 1%.

Presented below is the composition of public deposits:

	December 31, 2016	December 31, 2015	
	NIS millions		Change in percent
Deposits of private individuals [(1)]	8,450	8,357	1%
Deposits of institutional entities	1,361	1,379	(1%)
Deposits of corporations and others	1,057	1,283	(11%)
Total public deposits	**10,868**	**11,019**	**(1%)**

(1) Of which, a total of NIS 2,636 million to private individuals who have an active checking account at the Bank (2015 - NIS 2,458 million).

For additional details regarding deposit types and deposits by size range, see Note 19, public deposits.

Off-balance sheet activity in securities held by the public

As of December 31, 2016, the number of customers holding securities portfolios maintained by the Bank amounts to approximately 15 thousand customers, as compared with approximately 14 thousand customers as of the end of 2015. The value of these customers' securities portfolios as of December 31, 2016 amounts to approximately NIS 10 billion, as compared with approximately NIS 12.8 billion at the end of 2015. The decrease in the portfolio value was primarily due to the closing of the portfolio of an institutional customer. It is noted that the closing of the portfolio had no significant influence on the Bank's revenue.

Lent securities

The balance of lent securities amounted as of December 31, 2016 to approximately NIS 590 million (of which, approximately NIS 312 million for the nostro portfolio), as compared with approximately NIS 387 million at the end of 2015 (of which, NIS 259 million for the nostro portfolio). The increase was due to activities vis-à-vis the nostro portfolio and vis-à-vis customers.

Bonds and deferred liability notes

The balance of bonds and deferred liability notes amounted as of December 31, 2016 to NIS 1,582 million (of which, the balance of deferred liability notes in the amount was NIS 465 million), as compared with NIS 1,635 million at the end of 2015 (of which, the balance of deferred liability notes amounted to NIS 406 million).

The change in the balance was due to the redemption of bonds according to their original repayment terms, while on the other hand, the Bank's issuance, through a subsidiary, of deferred liability notes of the CoCo type, in the amount of NIS 128.4 million, as specified below in the chapter regarding capital and capital adequacy (Tier 2 capital).

Additionally, on December 29, 2016, the Bank issued a credit-linked note (CLN) in the amount of NIS 98.3 million, as specified below in Note 21 to the financial statements.

Assets and liabilities in respect of derivative instruments

The balance of assets with respect to derivative instruments as of December 31, 2016 amounted to NIS 151 million (of which, NIS 144 million with respect to customer activities), as compared with NIS 195 million at the end of 2015. (Of which, approximately NIS 191 million is for customers' activities.)

The balance of liabilities with respect to derivative instruments amounted as of December 31, 2016 to NIS

147 million (of which, approximately 144 are for customers), as compared with NIS 195 million at the end of 2015 (of which, approximately NIS 191 million for customer activities).

Material developments in additional off-balance sheet items

The balance of loans from deposits, by collection rate (loans to entitled individuals out of government funds) amounted as of December 31, 2016 to NIS 954 million, as compared with NIS 1,152 million at the end of 2015, a decrease of approximately 17%. The decrease is due to loan repayments and the significant reduction in the performance of loans to creditors. Income from collection fees by collection rate amounted in 2016 to NIS 11.0 million, as compared with NIS 12.3 million in 2015.

Quarterly and multi-annual data (profit and loss and balance sheet)

For details regarding quarterly data, see Annex 2 to the report regarding corporate governance and additional details.

For details regarding multi-annual data, see Annex 3 to the report regarding corporate governance and additional details, and Chapter 1.2 of the Report of the Board of Directors and Management.

Capital and capital adequacy

Presented below is the ratio of capital to risk components:

	December 31	
	2016	**2015**
	NIS millions	
A - Capital for the calculation of capital ratio		
Tier I capital, after supervised adjustments and deductions	800.4	778.6
Additional Tier I capital, after deductions	-	-
Tier 2 capital, after deductions	352.1	292.1
Total capital	**1,152.5**	**1,070.7**
B - Weighted balances of risk assets		
Credit risk	7,148.4	7,201.1
Market risks	21.2	72.0
Operational risk	753.9	740.7
Total weighted balances of risk assets	**7,923.5**	**8,013.8**
	In percent	
C. Ratio of capital to risk components		
Ratio of Tier I capital to risk components	10.1	9.7
Ratio of total capital to risk components	14.5	13.4
Minimum Tier I capital ratio required by the Commissioner of Banks	9.8	9.3
Ratio of minimum total capital required by the Commissioner of Banks	13.3	12.8

Presented below is the development of capital in 2016:

	Equity	Tier 1 capital	Tier 2 capital	Total capital
Balance as of December 31, 2015	784.0	778.6	292.1	1,070.7
Net profit for the period (1)	55.6	55.6	-	55.6
Dividend	(13.8)	(13.8)	-	(13.8)
Other comprehensive income, net, after tax impact (2)	(17.5)	(17.5)	-	(17.5)
Decrease in the balance of deferred liability notes recognized as Tier 2 capital	-	-	(66.2)	(66.2)
Issuance of deferred liability notes of the CoCo type	-	-	128.4	128.4
Decrease in collective provision recognized as Tier 2 capital	-	-	(2.2)	(2.2)
Other	-	(2.5)	-	(2.5)
Balance as of December 31, 2016	**808.3**	**800.4**	**352.1**	**1,152.5**

(1) See above for details regarding profit and profitability, in chapter regarding material developments in income, expenses and other comprehensive income.

(2) See above for details regarding developments in other comprehensive income items, in the chapter regarding material developments in income expenses, and other comprehensive income

On May 30, 2013, the Bank of Israel published updated Proper Banking Management Directives, which adopt the recommendations of Basel II and Basel III, beginning on January 1, 2014, with respect to the banking system in Israel (Proper Banking Management Directives 201 - 211).

The Proper Banking Management Directive specify that banking corporations and credit companies are required:

- To comply with a ratio of minimum Tier 1 capital (core capital) to weighted risk assets of 9%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, are equal to or exceed 20% of the total balance sheet assets in the banking system, to comply with a minimum total capital ratio of 10%, beginning on January 1, 2017.
- To maintain a minimum ratio of capital to weighted risk assets of 12.5%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, equal or exceed 20% of the total balance sheet assets in the banking system - to maintain a minimum capital ratio of 13.5%, beginning on January 1, 2017.

On September 28, 2014, the Commissioner of Banks published directives on the subject of restrictions regarding the provision of housing loans. According to the directives, the banking system is required to increase the target Tier 1 capital ratio at a rate which reflects 1% of the balance of housing loans. The application date of the requirement to fulfill the minimum capital target rate is January 1, 2017. The Banks are required to increase the minimum capital target, by quarterly rates of 0.125% of the balance of housing loans, from April 1, 2015 until January 1, 2017.

As a result of the implementation of the directive, the Bank added the demand for additional capital in the amount of approximately NIS 9 million, which constitutes an addition of approximately 0.1% to the minimum capital target specified by the Commissioner of Banks for each quarter. To the cumulative calculation as of January 1, 2017 will be added a total of approximately NIS 70 million, which constitutes an addition of approximately 0.9% to the minimum capital requirements.

It is noted that any change in the balance of the housing loans portfolio will change the required capital addition.

In accordance with the aforementioned directives of the Commissioner, the Bank's minimum Tier 1 capital as of December 31, 2016 amounts to 9.8%.

The determination of capital targets constitutes an initial and material step in the capital planning process, from which the other stages are derived, since the minimum capital target determined by the Bank of Israel effectively constitutes a planning restriction. The capital target was determined in consideration of the Bank's regulatory, organization and business environment. Further to the above, and within the framework of its discussions, the Board of Directors instructed management to prepare a plan of action for long term capital adequacy ratios, based on an increasing outline according to which the Tier 1 capital ratio amounts to 10.5% at the end of 2019.

Tier 2 capital

Total Tier 2 capital after deductions amounts to NIS 352.1 million, as compared with NIS 292.1 million at the end of 2015, of which the balance of deferred liability notes which were issued to the public and deferred deposits which were raised from households and institutional customers, which is included under Tier 2 capital, after deductions, for the purpose of calculating the ratio of capital to risk components, amounted as of December 31, 2016 to NIS 263 million, as compared with NIS 201 million at the end of 2015.

On June 9, 2016, Jerusalem Finance & Issuance (2005) Ltd., a subsidiary wholly controlled and owned by the Bank) (hereinafter: the "Subsidiary"), issued NIS 128.4 million of contingent deferred liability notes (Series 11) of the CoCo (Contingent Convertibles) type, which also include a mechanism for the absorption of losses by writing off principal. The liability notes were issued through a shelf offering report dated June 7, 2016, and a supplementary notice dated June 9, 2016.

The deferred liability notes are repayable in a single payment on June 7, 2026, with an option which is available to the subsidiary for early repayment no earlier than June 7, 2021 and no later than July 7, 2021, linked to the index for April 2016, bearing fixed annual interest at a rate of 3.2% per year, until the early repayment date. At present, and insofar as the Company does not exercise its right to early redemption, the stated interest rate of the bond will be updated in accordance with the difference between the interest rate anchor (the annual average yield of government bonds with remaining period to maturity of 5 years) on the issuance date and the rate as of the date of the interest update.

Upon the fulfillment of circumstances for a constitutive event, as specified in the prospectus, the Company will write off the principal of the liability notes.

A constitutive event will occur if the equity ratio of Bank of Jerusalem Ltd. falls below 5%, or upon the earlier of either: (1) An announcement by the Commissioner of Banks stating that delisting is necessary in order to avoid reaching a point of discontinuity, or (2) A decision by the Commissioner of Banks to implement a capital injection from the public sector, or an equivalent support, without which the Bank would reach a point of discontinuity, as determined by the Commissioner of Banks.

The liability notes meet provisions of Proper Banking Management Directive 202, and are recognized by the Commissioner of Banks as Tier 2 capital.

Leveraging ratio

	December 31, 2016
Tier I capital	**800.4**
Total balance sheet exposures	14,290.8
Other off-balance sheet exposures (after conversion factors to balance sheet exposures)	648.6
Additional amounts with respect to potential future exposure associated with all transactions regarding derivatives	41.6
Amounts with respect to assets which were deducted in the determination of Tier I capital	(7.9)
Total exposures	**14,973.1**
Leveraging ratio	**5.3%**
Minimum leveraging ratio required by the Commissioner of Banks	**5.0%**

On April 28, 2015, the Banking Supervision Department published Proper Banking Management Directive 218, on the subject of the "Leveraging ratio" (hereinafter: the "Directive"). The directive established a simple and transparent leveraging ratio, which is not based on risk, which will serve as a supplementary and reliable measurement of risk-based capital requirements, and which is intended to limit the accumulation of leverage in the banking corporation.

The leveraging ratio is defined as the ratio between the measurement of capital to the measurement of exposure. The capital used for the purpose of measuring the leveraging ratio is Tier 1 equity, as defined in Proper Banking Management Directive 202, in consideration of the transition arrangements which were determined. The total measurement of exposure is the total sum of balance sheet exposures, exposures to derivatives and to transactions involving the financing of securities and off-balance sheet items. In general, measurement is consistent with accounting values, and risk weights are not taken into account. Additionally, it is not possible to use physical or financial securities, guarantees or other techniques for the mitigation of credit risks, in order to reduce the measurement of the exposures, unless specified otherwise in the directive. Balance sheet assets which were deducted from Tier 1 capital (in accordance with the provisions of Proper Banking Management Directive 202) are deducted from the measurement of exposures. In accordance with the directive, the exposure with respect to derivatives is calculated in accordance with Proper Banking Management Directive 203, and the exposures with respect to off-balance sheet items are calculated between converting the theoretical total of the exposures of the items, into conversion factors for credit, as determined in Proper Banking Management Directive 203.

In accordance with the directive, a banking corporation is required to fulfill a leveraging ratio which will not fall below 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis constitutes 20% or more of the total balance sheet assets in the banking system must fulfill a leveraging ratio which will not fall below 6%. In accordance with the above, the minimum leveraging ratio which will be required is 5%.

A banking corporation is required to fulfill the minimum leveraging ratio beginning on January 1, 2018. A banking corporation which, on the publication date of the directive, fulfills the minimum leveraging ratio which applies to it, must not fall below the limit determined in the directive.

The Bank fulfills the leveraging ratio specified in the directive.

Dividend distribution policy

On August 29, 2013, the Bank's Board of Directors resolved to adopt a dividend distribution policy of up to 30% of the Bank's net profit in each year, as specified in the immediate report which was published by the Bank on August 29, 2013 (reference number: 2013-01-132396), which is included herein by way of reference. (In practice, the dividend distribution is generally performed on a quarterly basis, according to 30% of quarterly net profit).

However, the considerations regarding a dividend and its actual distribution, if any, will be affected by the requirement to meet the updated capital targets, as specified in by the Board of Directors (see below in the chapter regarding capital adequacy, chapter on risks and risk management methods) and are subject to the directives issued by the Commissioner of Banks, which will be determined from time to time, and in accordance with the provisions of the law, and in case of the fulfillment of certain circumstances, may prevent the Bank from having the possibility to distribute dividends.

A dividend distribution will be performed subject to the provisions of the Companies Law, 5759 - 1999, and Proper Banking Management Directive 331, on the subject of dividend distributions in banking corporations. The Commissioner of Banks announced to the banks on June 30, 2010 that in addition to Proper Banking Management Directive 331, a bank which does not fulfill a capital target of 7.5% or where a dividend distribution would cause it not to fulfill the target, is not entitled to distribute dividends unless approval has been received from the Commissioner of Banks.

The above regarding a dividend distribution will not create any undertaking whatsoever towards any third party whatsoever (including with respect to actual dividend distributions / dividend payment dates and/or rates).

The information provided above regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervised and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

In 2016, dividends were distributed in the amount of NIS 13.8 million.

For additional details regarding dividend distributions, see below in Note 25 to the financial statements.

2.4 Supervised operating segments

In accordance with the circular issued by the Banking Supervision Department on November 3, 2014, beginning with the financial statements for 2015, the report regarding operating segments is prepared in accordance with the framework and classifications which were determined in the public reporting regulations of the Banking Supervision Department.

The full disclosure was included for the first time in the report as of March 31, 2016, and the comparative figures were reclassified in accordance with the classification of customers to the supervised operating segments, as of January 1, 2016.

The Bank operates through the Bank's headquarters, branches and subsidiaries, and provides a variety of banking services through five main operating segments.

The approach of management to the segmentation of the Bank's activities is not significantly different than the approach to the segmentation of supervised segments, as described below:

- **Household segment -** The customers of this segment are private individuals (excluding those who are included in the private banking segment).
- **Private banking segment -** The customers of this segment are private individuals who have a balance in the financial assets portfolio exceeding NIS 3 million.
- **Business segment -** The customers of this segment are construction companies, contractors and real estate companies, corporations and associations.

- **Institutional segment -** The customers of this segment include stock exchange member companies which manage customer funds, insurance companies and additional institutional entities.
- **Financial management segment -** The segment includes the Bank's nostro activity and the Bank's assets and liabilities management activity.

The main principles which were applied in the division of the results of operations among the various segments:

- **Interest income, net -** The margin which is received from the difference between the interest which is collected on the credit that was provided to the segment's customers, and the price of money (the economic transfer price which corresponds to the linkage segment and the credit's duration) and profit received from the difference between the interest paid on the deposit to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).
- **Non-interest income -** Non-interest income is directly applied to the segment where the customer activity is classified.
- **Expenses with respect to credit losses -** The provision was applied to the operating segment where the customer activity for which the provision was performed is classified. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.
- **Operating and other expenses -** Identifiable direct expenses were specifically applied to the operating segments. The balance of indirect expenses or direct expenses which were not directly attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, which constitutes a best estimate of the customer's scope of activities in the operating segment.
- **Taxes on income -** Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

For details regarding the main principles which were applied in the division of the results of operations among the various segments, see also Note 29 to the financial statements.

Presented below are details regarding the average balances of assets and liabilities which were used in operating segments:

	Assets			Liability		
	2016	2015	Change	2016	2015	Change
Segments	NIS millions		%	NIS millions		%
Households	8,323.6	7,937.0	5	6,866.5	7,032.9	(2)
Private banking	6.6	4.7	40	1,583.5	1,631.5	(3)
Small and micro businesses	1,350,1	1,130.0	19	808.6	1,134.3	(29)
Medium and large businesses *	595.6	795.3	(25)	376.1	294.1	28
Institutional entities	41.4	6.8	509	1,407.2	1,143.2	23
Financial management segment	3,873.0	4,105.9	(6)	2,348.8	1,970.2	19
Total	**14,190.3**	**13,979.7**	**2**	**13,390.7**	**13,206.2**	**1**

*This segment includes activities with large businesses of an immaterial scope.

Presented below are details regarding net profit (loss) by operating segments:

	For the year ended December 31		
	2016	2015	Change
Segments	NIS millions		%
Households	8.7	(0.4)	-
Private banking	(3.4)	(3.4)	-
Small and micro businesses	21.1	22.2	(5)
Medium and large businesses *	7.0	10.7	(35)
Institutional entities	(8.6)	(5.8)	48
Financial management segment	30.8	21.4	43
Unallocated amounts (sale of structure)	-	3.9	-
Total	**55.6**	**48.6**	**14**

*This segment includes activities with large businesses of an immaterial scope.

Households segment

Summary description of the segment's characteristics

In the household activity segment, the Bank offers a variety of financial services and products to private individuals (excluding those which are associated with the private banking segment. The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for the acquisition of residential apartments, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches and by means of the Bank's call center.

For details regarding housing loans, see below in the chapter regarding risks, housing loans portfolio.

Presented below is a summary of the results of operations in the households segment (NIS millions):

	2016			2015		
	Housing loans	Other	Total	Housing loans	Other	Total
Interest income from externals	241.9	132.3	374.2	219.2	116.8	336.0
Interest expenses to externals	-	40.9	40.9	-	26.4	26.4
Interest income, net			-			
From externals	241.9	91.4	333.3	219.2	90.4	309.6
Inter-segmental	(111.2)	43.9	(67.3)	(101.4)	34.6	(66.8)
Total interest income, net	**130.7**	**135.3**	**266.0**	**117.8**	**125.0**	**242.8**
Non-interest income - from externals	27.4	38.5	65.9	31.6	38.8	70.4
Total income (before credit losses)	**158.1**	**173.8**	**331.9**	**149.4**	**163.8**	**313.2**
Expenses (income) with respect to credit losses	(7.9)	37.3	29.4	0.7	40.8	41.5
Direct expenses	30.8	131.2	162.0	30.0	126.6	156.6
Indirect expenses	33.7	91.9	125.6	30.4	85.3	115.7
Profit (loss) before taxes	**101.5**	**(86.6)**	**14.9**	**88.3**	**(88.9)**	**(0.6)**
Tax expenses (income)	41.6	(35.4)	6.2	27.1	(27.3)	(0.2)
Net profit (loss) after loading indirect expenses	**59.9**	**(51.2)**	**8.7**	**61.2**	**(61.6)**	**(0.4)**
Net profit - before loading indirect expenses	**81.1**	**3.2**	**84.3**	**83.1**	**(2.5)**	**80.6**
Average balance of assets	7,040.3	1,283.3	8,323.6	6,872.6	1,064.4	7,937.0
Average balance of liabilities	-	6,866.5	6,866.5	-	7,032.9	7,032.9
Average balance of risk assets	4,131.6	1,445.3	5,576.9	3,994.3	1,267.2	5,261.5
Average balance of other managed assets	1,041.0	3,145.6	4,186.6	1,246.4	3,558.1	4,804.5

The household segment recorded, in 2016, net profit of NIS 8.7 million, as compared with loss of NIS 0.4 million in 2015. The increase in profit was primarily due to the increase in interest income in the housing loan and other subsegments, and the recovery in the housing loans activity.

The income in this segment constitutes approximately 65% of the Bank's total income. The expenses in this segment constitute approximately 74% of the Bank's total expenses.

In the housing loan subsegment, an increase of approximately 11% in interest income occurred, due to the improvement in the mortgage margin, and the decrease in expenses with respect to credit losses, in parallel the decrease in debts in arrears.

In the households / other subsegment, interest income increased at a rate of approximately 8%, primarily due to the increase in the balance of the portfolio for solo consumer loans.

Private banking segment

Summary description of the segment's characteristics

The banking activity in the private banking segment provides services and products which are given to private individuals who have a portfolio of financial assets exceeding NIS 3 million.

Presented below are the summary results of operations in the private banking segment (NIS millions):

	For the year ended December 31	
	2016	**2015**
Interest income from externals	-	0.2
Interest expenses to externals	13.4	11.8
Interest income, net		
From externals	(13.4)	(11.6)
Inter-segmental	15.9	14.7
Total interest income, net	**2.5**	**3.1**
Non-interest income - from externals	6.4	5.2
Total income (before credit losses)	**8.9**	**8.3**
Expenses (income) with respect to credit losses	0.1	-
Direct expenses	5.9	5.7
Indirect expenses	8.6	7.6
Profit (loss) before taxes	**(5.7)**	**(5.0)**
Tax expenses (income)	(2.3)	(1.6)
Net profit (loss) after loading indirect expenses	**(3.4)**	**(3.4)**
Net profit - before loading indirect expenses	**1.7**	**1.6**
Average balance of assets	6.6	4.7
Average balance of liabilities	1,583.5	1,631.5
Average balance of risk assets	23.9	23.4
Average balance of other managed assets	2,447.5	3,113.7

The private banking segment recorded, in 2016, loss in the amount of approximately NIS 3 million, similarly to the previous year.

The income from this segment constitutes approximately 2% of the Bank's total income. The expenses in this segment constitutes approximately 4% of the Bank's total expenses.

Business segment

Summary description of the segment's characteristics

The business segment provides banking services to business customers. These services are provided to the Bank's customers through the real estate sector and through the retail division. The segment includes activities in the real estate sector, including accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, including, inter alia, the financing of projects in accordance with the various types of National Outline Plan 38. The Bank also manages credit which is provided in order to finance projects in the solar energy segment, whether independently or through joint financing with financial entities.

The business segment is divided into the following subsegments:

- Small and micro businesses segment - businesses with a turnover of less than NIS 50 million.
- Medium and large business segment* - businesses with a turnover equal to or greater than NIS 50 million.

* This segment includes activities with large businesses of an immaterial scope.

Presented below are the results of operations of the business segment, by sub-segment

Small and micro businesses segment (NIS millions):

	For the one year period ended December 31					
	2016			2015		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest income from externals	41.0	1.6	42.6	40.6	2.9	43.5
Interest expenses to externals	0.2	1.3	1.5	-	0.7	0.7
Interest income, net						
From externals	40.8	0.3	41.1	40.6	2.2	42.8
Inter-segmental	(10.2)	2.1	(8.1)	(11.5)	2.1	(9.4)
Total interest income, net	**30.6**	**2.4**	**33.0**	**29.1**	**4.3**	**33.4**
Non-interest income - from externals	16.6	12.7	29.3	12.9	10.3	23.2
Total income (before credit losses)	**47.2**	**15.1**	**62.3**	**42.0**	**14.6**	**56.6**
Expenses (income) with respect to credit losses	(0.6)	0.2	(0.4)	(1.4)	0.3	(1.1)
Direct expenses	5.7	5.7	11.4	5.7	5.5	11.2
Indirect expenses	9.3	6.2	15.5	8.7	5.4	14.1
Profit (loss) before taxes	**32.8**	**3.0**	**35.8**	**29.0**	**3.4**	**32.4**
Tax expenses (income)	13.4	1.3	14.7	9.1	1.1	10.2
Net profit (loss) after loading indirect expenses	**19.4**	**1.7**	**21.1**	**19.9**	**2.3**	**22.2**
Net profit - before loading indirect expenses	25.3	5.5	30.8	26.4	6.2	32.6
Average balance of assets	1,054.7	295.4	1,350.1	953.0	177.0	1,130.0
Average balance of liabilities	375.6	433.0	808.6	429.6	704.7	1,134.3
Average balance of risk assets	1,369.6	66.8	1,436.4	1,267.8	102.5	1,370.3
Average balance of other managed assets	14.4	1,296.5	1,310.9	9.3	927.6	936.9

Medium and large business segment (NIS millions):

This segment includes activities with large businesses of an immaterial scope.

	For the year ended December 31					
	2016			2015		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest income from externals	15.5	-	15.5	13.9	-	13.9
Interest expenses to externals	-	0.1	0.1	-	-	-
Interest income, net						
From externals	15.5	(0.1)	15.4	13.9	-	13.9
Inter-segmental	(3.7)	0.1	(3.6)	(2.2)	0.1	(2.1)
Total interest income, net	**11.8**	**-**	**11.8**	**11.7**	**0.1**	**11.8**
Non-interest income - from externals	8.5	0.3	8.8	10.5	0.3	10.8
Total income (before credit losses)	**20.3**	**0.3**	**20.6**	**22.2**	**0.4**	**22.6**
Expenses with respect to credit losses	1.3	-	1.3	-	-	-
Direct expenses	2.8	-	2.8	2.8	-	2.8
Indirect expenses	4.7	-	4.7	4.3	-	4.3
Profit (loss) before taxes	**11.5**	**0.3**	**11.8**	**15.1**	**0.4**	**15.5**
Tax expenses (income)	4.7	0.1	4.8	4.7	0.1	4.8
Net profit (loss) after loading indirect expenses	**6.8**	**0.2**	**7.0**	**10.4**	**0.3**	**10.7**
Net profit - before loading indirect expenses	**9.7**	**0.2**	**9.9**	**13.6**	**0.3**	**13.9**
Average balance of assets	493.7	101.9	595.6	605.3	190.0	795.3
Average balance of liabilities	267.5	108.6	376.1	143.5	198.1	341.6
Average balance of risk assets	556.0	3.7	559.7	597.9	1.0	598.9
Average balance of other managed assets	181.6	3,279.3	3,460.9	164.1	3,851.3	4,015.4

The business segment (small, medium and large businesses) recorded, in 2016, profit of NIS 28.1 million, as compared with NIS 32.9 million in 2015.

Non-interest income increased by approximately 12% relative to 2015. Due to the increase in the scope of construction-accompanied commissions.

Expenses with respect to credit losses increased by NIS 2.0 million relative to 2015, due to the increase in the balance of impaired debts.

The income from this segment constitutes approximately 16% of the Bank's total income. The expenses in this segment constitutes approximately 9% of the Bank's total expenses.

Institutional entities segment

Summary description of the segment's characteristics

The customers in this segment include stock exchange member companies which manage customer funds, insurance companies and additional institutional entities.

Presented below are the summary results of operations of the institutional entities segment (NIS millions):

	For the year ended December 31	
	2016	**2015**
Interest income from externals	-	-
Interest expenses to externals	8.3	9.4
Interest income, net		
From externals	(8.3)	(9.4)
Inter-segmental	10.8	10.6
Total interest income, net	**2.5**	**1.2**
Non-interest income - from externals	22.0	26.4
Total income (before credit losses)	**24.5**	**27.6**
Expenses with respect to credit losses	-	-
Direct expenses	22.0	21.0
Indirect expenses	17.3	15.3
Profit (loss) before taxes	**(14.8)**	**(8.7)**
Tax expenses (income)	(6.2)	(2.9)
Net profit (loss) after loading indirect expenses	**(8.6)**	**(5.8)**
Net profit - before loading indirect expenses	1.5	4.1
Average balance of assets	41.4	6.8
Average balance of liabilities	1,407.2	1,143.2
Average balance of risk assets	49.1	7.3
Average balance of other managed assets	134.8	12.5

The institutional entities segment recorded, in 2016, loss of NIS 8.6 million, as compared with NIS 5.8 million in 2015.

The increase in loss was primarily due to the decrease in commissions which were collected from customers in the segment, relative to the previous year.

The income in this segment constitutes approximately 5% of the Bank's total income. The expenses in this segment constitute approximately 10% of the Bank's total expenses.

Financial management segment

Summary description of the segment's characteristics

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of assets and liabilities.
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Activities vis-à-vis banks in Israel and around the world.

Presented below are the summary results of operations in the financial management segment (NIS millions):

	For the year ended December 31	
	2016	**2015**
Interest income from externals	6.0	12.7
Interest expenses to externals	31.1	23.9
Interest income, net		
From externals	(25.1)	(11.2)
Inter-segmental	52.3	53.0
Total interest income, net	**27.2**	**41.8**
Non-interest income - from externals	35.4	0.9
Total income (before credit losses)	**62.6**	**42.7**
Expenses (income) with respect to credit losses	-	-
Direct expenses	8.4	9.9
Indirect expenses	2.3	1.6
Profit (loss) before taxes	**51.9**	**31.2**
Tax expenses (income)	21.1	9.8
Net profit (loss) after loading indirect expenses	**30.8**	**21.4**
Net profit - before loading indirect expenses	32.5	23.0
Average balance of assets	3,873.0	4,105.9
Average balance of liabilities	2,348.8	1,922.7
Average balance of risk assets	485.4	643.1

The financial management segment recorded, in 2016, profit of NIS 30.8 million, as compared with NIS 21.4 million in 2015.

The increase in profit was primarily due to the realization of bonds (see Note 1.F).

The income from this segment constitutes approximately 12% of the Bank's total income. The expenses in this segment constitutes approximately 2% of the Bank's total expenses.

2.5 Main investee companies

During the reporting period, no material developments occurred in the activities of investee companies, except for the issuance of contingent deferred liability notes of the CoCo type, in the amount of NIS 128.4 million, through a subsidiary, as specified above in the chapter regarding capital and capital adequacy, and except for the publication a new shelf prospectus through a subsidiary, based on its financial statements as of June 30, 2016. For details regarding the main investee companies, see Note 15 to the financial statements.

Chapter 3 - Risk Review

3.1 Credit risk

Review of risks and of the risk management method

Credit risk is the risk of harm to the Bank's value due to the possibility that a borrower or counterparty of the Bank will default on its obligations, relative to the terms which were agreed with it, or due to a deterioration in the quality of borrowers and the value of the collateral which was provided by them.

Credit to the public is managed in several main segments, which are differentiated from one another by the characteristics of the customers and banking services which they require, and by the organizational unit which is responsible for handling each type of customer:

- The household segment, customers of the international operation and commercial customers are under the responsibility of the retail division.
- The business segment, primarily in the real estate project accompaniment segment, are under the responsibility of the real estate sector, which is subordinate to the Bank's CEO.

Credit risk is the Bank's main risk. The materiality of this risk corresponds to the Bank's core business operations. This risk is reflected primarily in activities vis-à-vis retail customers, approximately 90% of the activity, but also vis-à-vis business customers. In order to manage the credit risk, a credit risk management policy and credit policy are defined in the Bank, which are approved each year by the Board of Directors.

The credit risk management policy describes the entities which create, manage and control this risk, principles and restrictions for managing risks, tools for mitigating risks, and monitoring tools for risk management. Additionally, it includes a description of the process of establishing authorities, the orderly reporting process and the process regarding the reporting of exceptions.

The credit policy document, which is approved by the Bank's Board of Directors, sets forth the Bank's credit provision policy, and specifies the principles governing the provision of credit, including restrictions and collateral. The policy also includes specification of principles and rules for the management and control of the credit portfolio, with the aim of preserving its quality and minimizing its inherent risk. These principles allow controlled management of the risks involved in the provision of credit to borrowers, on the levels of the individual customer, of groups of borrowers, and of market branches and business lines. The credit policy is evaluated throughout the year in light of macro-economic changes ad developments in the Bank's business environment, and accordingly, updates thereto are implemented as needed.

The credit provision process includes an evaluation of the transaction data, in accordance with criteria which were determined in the Bank's policies. The credit underwriting and approval process is hierarchical, from the branch level to the senior management level, in accordance with a hierarchy of authorities which was approved by the Board of Directors.

The Bank operates on several levels in order to monitor and reduce credit risk, as much as possible, from the stage involving the underwriting and approval of credit, to the collateral required according to the credit policy, and the relevant policies, to ongoing monitoring and controls which are implemented in the business units which constitute the first line of defense, and in the designated control units. The Bank invests a great deal of efforts in improving the professionalism and expertise of those engaged in the provision and management of credit, and in the development of computerized tools to assist in its effective management. Improvements were also introduced to the collection processes.

The Bank makes use of several IT systems to monitor and control credit risk. The IT systems provide control tools for the first line of defense, and also for the second and third lines, in order to identity credit risks.

The main systems include the commercial credit system, the mortgage management system, systems to support decision making regarding retail credit, and internal rating systems for the credit portfolio.

The Bank has several internal systems for the rating of borrowers which support the reaching of credit decisions: in the project accompaniment segment, the system incorporates parameters from the projects' rate of progress reports, such as evaluating the rate of progress, the liquidity position, the erosion of profitability, value of inventory, and more. In retail credit, the customer is rated according to a rating model which is based on the customer's characteristics at the time of the request for credit. Separate statistical models for existing customers and new customers were implemented in the Bank. The models are validated and monitored on an ongoing basis.

Additionally, the Bank has behavioral models in consumer credit and mortgages, which predict the probability of default in the Bank's existing credit portfolio. These models are used to monitor risk in the existing portfolio, and also constituted an infrastructure for the creation of a standard internal rating scale for the balance sheet credit to the public, as required under Proper Banking Directive 314.

Bank management continues to upgrade the measurement, reporting and monitoring tools, with the aim of receiving more comprehensive information to assist in the management of credit risk.

As part of the credit risk mitigation process, the Bank requires securities in accordance with the credit policy which was approved. The main collateral which is given to the Bank is the pledging of real estate. Additional collateral is also received by the Bank, in the form of pledges on vehicles, deposits and securities, third party bank guarantee, personal guarantees of debt guarantors, and more. The Bank's policy sets forth rules regarding reliance on each type of collateral, in accordance with the nature of the collateral, its marketability, speed of realization and the legal status of the collateral. The different types of collateral are adjusted to the circumstances of the loan.

The Bank's policies specify rules for the management of collateral, and for updating their value.

In 2016, the Bank took additional steps to mitigate credit risk by hardening the credit policy. Improvement of underwriting processes and tightening of restrictions on certain exposures.

Description of the active entities which create, manage and control credit risk

The Bank adopted a framework regarding the management and control of risks, which is based on a supervision circuit and on three "lines of defense". The supervision circuit includes the Board of Directors and its relevant committees (the Board of Directors Risk Management Committee and the Audit Committee), as well as senior management. The first line of defense includes the risk takers and risk managers, including the internal Credit Committee, the Retail Division Manager, the real estate sector manager, authorized individuals in the credit department and the collection unit. The second line of defense includes the risk management functions in the risk division, led by the Risk Division Manager, who also serves as the Bank's Chief Risk Officer. The second line also includes the Bank's monetary division. The third line includes internal controls.

For an extensive description of the work involved in managing and controlling credit risk, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Concentration

Concentration risk is the risk which arises due to the absence of distribution in the credit portfolio. Credit concentration risk in the Bank involves several main aspects:

- **Borrower concentration risk** - a risk which arises from the credit that is given to a borrower or to several borrowers which in the same group of borrowers. Insofar as the distribution of the credit portfolio between the various borrowers is broader, the borrowers concentration risk is lower. With the aim of reducing concentration risk, the Bank works to implement distribution in the credit portfolio between many borrowers from different market sectors. The Bank conducts ongoing monitoring of the large borrowers and the fulfillment of the restrictions determined by the Board of Directors,

Based on the Bank's intention to restrict the Bank's exposure to large borrowers, the Bank's Board of Directors established exposure limits to large borrowers, which are more stringent than the directives issued by the Commissioner of Banks.

- **Market sector concentration risk** - a risk arising from the high scope of credit provided to borrowers who belong to a certain economic sector (market branch).

  For the purpose of mitigating the credit risk which is due to concentration in the construction branch, with respect to project accompaniment, the Bank collaborates with insurance companies which issue sale policies to apartment buyers in projects and/or collateral to land owners in combination transactions, and divides shared collateral with the Bank, "pari passu".

  Additionally, the Bank cooperates with financial entities in the project accompaniment and solar energy segments. These entities provide credit together with the Bank, according to a predetermined ratio.

- **Geographical concentration risk** - this risk is due to the exposure to borrowers who are concentrated in a certain geographical area, or collaterals which are concentrated in a certain geographical area. The Bank's credit policy specifies restrictions with respect to geographical distribution, which are intended to reduce such risk. The geographical concentration is primarily in Central Israel and in the Greater Jerusalem area.

- **Segmental concentration risk** - this risk is due to the insolvency of borrowers who belong to the same population group.

  The Bank has extensive activities with customers in the Ultra Orthodox and Arabic sectors. The Bank evaluates its exposure to these population groups on an ongoing basis, and performs scenario analyses, which indicate that the Bank is not expected to incur exceptional losses as a result of the Bank's exposure to these segments. The results of the evaluation are submitted to the Bank's Board of Directors within the framework of the quarterly risk report.

The Bank's credit provision process

Most of the Bank's credit portfolio is managed in the retail division. Credit in the project accompaniment and construction financing department is managed in the real estate sector, which is directly subordinate to the CEO. In both units there is a clear division of credit authorities, credit types, customer types and credit amounts. The credit underwriting process is also defined, and each credit request is evaluated and approved according to a hierarchy of authorities and in accordance with the principles which were approved by the Bank's Board of Directors.

In the retail segment, an underwriting center operates which approves or presents for approval, to the hierarchy of authorities regarding credit approval, each mortgage request or consumer credit request which is beyond the approval authority of the branch manager.

The Bank also has a central evaluation unit which evaluates mortgage portfolios before they are implemented. The evaluation process focuses on the review of credit and collateral provision documents, fulfillment of the stipulations specified at the time of approval for the credit, with the aim of fulfilling functions of control over the loan creation process, reducing the exposure to operational risk in mortgage operations, and bringing the entire bank in line with an operating process which conforms with common, controlled standards. The evaluation unit is subordinate to the resources division, thereby implementing managerial separation between the process of approving credit and submitting documents, and the evaluation thereof.

For additional details regarding the process of providing housing credit, see below in the chapter regarding risks in the housing loans portfolio, below in this chapter.

Loans to private individuals within the framework of the consumer credit activities, including checking account facilities and credit cards, are approved and implemented at the Bank's branches in accordance with the rating model and the recommendation regarding exposure which is given by the credit underwriting system. Requests which are not authorized by the branch are transferred for discussion and approval of the underwriting center at the headquarters of the retail division.

For additional details regarding the process of providing credit to credit to private individuals (non-housing), see below in the chapter regarding risks in the portfolio of loans to private individuals (non-housing), below in this chapter.

In the real estate sector department, credit requests are prepared by the control and reports staff, and not by the referents (risk creators), and undergo an evaluation by the CRA unit (credit risk management) which is subordinate to the Risk Division Manager, before their submission for approval to the relevant Credit Committees, in accordance with the established hierarchy of authorities.

As part of its evaluation of credit portfolios and collateral, the CRA unit also evaluates the presence of all required documents and collateral, before providing the credit, and gives approval for the credit teams to provide the credit to the customer. As part of its analysis of credit risks, the CRA unit provides an additional, independent opinion regarding the credit request which is submitted for approval to the Bank's institutions, in a separate, independent document (hereinafter: the "CRA Document"). It is emphasized that the credit requests are not submitted for discussion by the Bank's institutions unless the CRA document has been submitted concurrently with the request. The CRA Unit Manager reports to the risk division regarding the CRA documents which were prepared by it.

In the project accompaniment and construction financing department, each project is managed through close accompaniment by the construction supervisor, who submits periodic reports about the rate of progress on the project. Additional credit which is required for the purpose of completing construction is only approved after evaluating the project's updated exposure report, in consideration of its rate of progress, and provided that the borrower meets the determined parameters and milestones. Additionally, throughout the lifetime of the project (usually once per month, upon the receipt of the supervisor's performance report), the project's financial stability is evaluated by the referents in the division.

Identification and handling of troubled credit

As part of the measures implemented by the Bank in its management of credit risks, there is a methodology for the location and identification of troubled debt, which is applied throughout all business lines. The methodology includes a routine, orderly and structured procedure which involves performing a thorough review of the credit portfolio, using criteria central monitoring advance alerts regarding the debt's transformation into troubled debt.

As part of the review, customers with negative indicators are identified, such as debt in arrears, cash flow difficulties, as reflected in difficulty in effecting principal and/or interest payments in loans, deterioration of business operations, etc., and an evaluation is performed regarding the need to issue new recommendations for the classification of customers or changing the classification of customers with existing classifications, or their inclusion in watch lists (customers with negative indicators, in accordance with criteria which were defined in the Bank's policies, and regarding which it was decided that they do not need to be classified). The recommendations are submitted to the troubled debt committees, in accordance with the determined hierarchy of authorities, who discuss them and reach decisions on classification or performance of provisions regarding them.

When a loan to private individuals enters arrears, the collection center or branch handle the collection of arrears in the first stages of the arrears. As the extent of the arrears increases, the handling of the loan is transferred to the collection department for handling. In exceptional cases involving concern of fraud or deceit, the process of transferring the portfolio from the branch to the collection department is performed immediately.

When the real estate sector department or the commercial banking unit identifies that a borrower has encountered difficulties, or that there is concern that they may encounter difficulties, an immediate discussion is held, including the participation of the main entities who are responsible for handling the customer, and immediate decisions are reached regarding whether the customer should be transfered for handling by the Bank's collection department, through legal handling outside of the Bank, by initiating receivership or liquidation proceedings, or by initiating an arrangement regarding the debt.

Upon the occurrence of significant events which could affect a group of customers or the credit portfolio, the Bank evaluates the effect of the event on the credit portfolio, and responds accordingly. The response could be implemented by means of a change in policy or by means of actions taken vis-à-vis the current borrowers.

The collection department concentrates all of the processes under the collection activities in the Bank, and oversees the work performed by lawyers and subcontractors who are involved in the collection process. During 2017, an organizational change is planned in the collection units.

The Bank aims to reach arrangements, vis-à-vis borrowers who are in arrears, regarding their debts to the Bank, and the routine continuation of the monthly payments, provided that the loan portfolio has sufficient collateral.

In cases where the borrowers do not cooperate and/or refrain from paying the debt, receivership proceedings will be initiated which constitute a last resort option to settle the debt.

The Bank operates in accordance with an orderly set of procedures which deals with the identification, classification and handling of troubled debts, and there is a system for arranging shared work connections between the credit managers and the collection department.

The Board of Directors and its committees receive periodic reports regarding the distribution and segmentation of credit, large borrowers and additional parameters to measure the exposure to credit risk.

Provision for credit losses

Presented below is a table presenting credit risks and non-operating assets:

	Balance of credit risk [3] per day					
	December 31, 2016			December 31, 2015		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
1. Troubled credit risk [1]:						
Impaired credit risk	45.9	4.9	50.8	25.7	2.3	28.0
Subordinated credit risk	16.3	0.6	16.9	17.2	0.9	18.1
Credit risk under special supervision [2]	148.9	-	148.9	177.1	-	177.1
Total troubled credit risk *	**211.1**	**5.5**	**216.6**	**220.0**	**3.2**	**223.2**
* Of which: non-impaired debt, in arrears of 90 days or more (primarily housing)[3]	153.1	-	153.1	178.4	-	178.4
2. Non-operating assets:						
Impaired debt which does not accrue interest income[4]	33.5	4.9	38.4	13.5	2.3	15.8
Total non-operating assets	**33.5**	**4.9**	**38.4**	**13.5**	**2.3**	**15.8**

(1) Credit risk which is impaired, subordinate or subject to special supervision.
(2) Including with respect to loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.
(3) Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(4) Not including debts regarding which the recognition of income is performed on a cash basis.

Presented below are details regarding the periodic movement in impaired debts in the balance sheet, in millions of NIS:

Balance of impaired debts as of December 31, 2015	**25.7**
Debts classified as impaired debts during the year	31.0
Accounting write-offs	(5.1)
Collection on a cash basis	(5.7)
Balance of impaired debts as of December 31, 2016	**45.9**

The balance of debts in restructuring of troubled debts as of December 31, 2016 amounted to NIS 21.8 million, as compared with NIS 23.3 million at the end of 2015.

The balance of the provision for credit losses with respect to impaired debts as of December 31, 2016 amounted to NIS 11.1 million, as compared with NIS 9.4 million at the end of 2015. The increase was primarily due to debts which were classified as impaired in the construction and real estate branch (for additional details, see Note 30B1 to the financial statements).

Presented below are details regarding housing loan in arrears, in accordance with the annex to Proper Banking Management Directive 314:

	As of December 31, 2016 (NIS millions)							
		Arrears of 90 days or more					**Balances with respect to refinanced loans in arrears**(3)	
	In arrears of 30 to 89 days	**90 days to 6 months**	**6 months to 15 months**	**15 months to 33 months**	**Over 33 months**	**Total over 90 days**		**Total**
Amount in arrears	0.5	2.0	1.9	2.2	9.6	15.7	-	16.2
Of which: balance of the provision for interest (1)	-	-	-	0.1	3.0	3.1	-	3.1
Recorded debit balance	29.3	64.5	38.0	16.8	10.2	129.5	7.9	166.7
Balance of the provision for credit losses (2)	-	-	4.6	7.4	7.6	19.6	0.8	20.4
Net debit balance as of December 31, 2016	**29.3**	**64.5**	**33.4**	**9.4**	**2.6**	**109.9**	**7.1**	**146.3**
Net debit balance as of December 31, 2015	32.2	76.1	34.5	13.8	1.7	126.1	8.4	166.7

(1) With respect to interest on amounts in arrears.
(2) Not including the balance of the provision for interest.
(3) Loans in which an arrangement was signed for the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due, without waiving the income.

The net balance of debts in arrears as of December 31, 2016 amounts to approximately NIS 146 million, a decrease of approximately 12% relative to last year.

Presented below are details regarding the provision rates:

	December 31, 2016	December 31, 2015
Rate of the balance of impaired credit to the public which does not accrue interest income, to the balance of credit to the public (1)	**0.34%**	0.13%
Rate of the balance of non-impaired credit to the public in arrears of 90 days or more, to the balance of credit to the public	**1.55%**	1.78%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of credit to the public	**1.04%**	1.12%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income (1)	**305%**	827%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income, plus the balance of credit to the public which is in arrears of 90 days or more	**55%**	58%
Rate of troubled credit risk with respect to the public out of total credit risk with respect to the public	**1.87%**	1.88%
Rate of expenses with respect to credit losses to from the average balance of credit to the public (2)	**0.31%**	0.41%
Rate of net write-offs with respect to credit to the public to the average balance of credit to the public (2)	**0.40%**	0.37%
Rate of net write-offs with respect to credit to the public to the balance of the provision for credit losses with respect to credit to the public (2)	**38.4%**	32.9%

For additional details and additional qualitative disclosure regarding the identification and handling of troubled credit and the provision for credit losses, see Notes 1, 13 and 30 to the financial statements.

(1) The change relative to the previous period is due to the increase in the balances of impaired debts in the construction and real estate branch.

(2) The ratio is affected by the composition of the Bank's credit portfolio, which is heavy on housing loans, where for the most part, the classification of impaired debt is irrelevant to housing loans.

Credit risk by market branches

	December 31, 2016									
	Total credit risk (1)			Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
								Credit losses (4)		
					Of which					
	Total	Credit performance rating(7)	Troubled(5)	Total	Debts(2)	Troubled(5)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Construction and real estate - construction (6)	1,861.3	1,729.0	24.1	1,861.3	953.8	24.1	23.5	-	-	5.6
Construction and real estate - real estate activities	471.5	454.0	17.5	471.5	460.9	17.5	11.0	0.8	0.1	3.5
Financial services	702.9	702.9	-	558.6	321.2	-	-	0.1	-	0.4
Others	34.9	34.3	0.6	34.1	18.7	0.6	0.6	(0.2)	0.1	0.1
Total commercial	**3,070.6**	**2,920.2**	**42.2**	**2,925.5**	**1,754.6**	**42.2**	**35.1**	**0.7**	**0.2**	**9.6**
Private individuals - housing loans	7,237.4	6,819.3	137.4	7,237.4	7,014.1	137.4	-	(7.7)	7.7	44.8
Private individuals - other	1,291.5	1,195.1	37.0	1,291.5	1,123.9	37.0	15.7	37.4	31.5	51.0
Total public - activities in Israel	**11,599.5**	**10,934.6**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**
Banks in Israel	5.7	5.7	-	-	-	-	-	-	-	-
Government of Israel	1,168.4	1,168.4	-	-	-	-	-	-	-	-
Total activities in Israel	**12,773.6**	**12,108.7**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**
Foreign banks	1.1	1.1	-	-	-	-	-	-	-	-
Foreign governments	259.2	259.2	-	-	-	-	-	-	-	-
Total	**13,033.9**	**12,369.0**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Includes: debts - NIS 9,892.6 million, bonds - NIS 1,428.4 million, assets with respect to derivative instruments - NIS -151.1 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,561.8 million).

(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.

(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).

(5) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 152.5 million and facilities which were provided to those groups, in the amount of NIS 219.7 million (as of December 31, 2015: NIS 76 million and NIS 145.2 million, respectively).

(7) Credit risk whose credit rating on the reporting date corresponds to the credit rating for the provision of new credit, in accordance with the Bank's policy.

(8) Balances lower than NIS 0.1 million are not presented in this addendum.

	December 31, 2015									
	Total credit risk (1)			Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
								Credit losses (4)		
					Of which					
	Total	Credit performance rating (7)	Troubled(5)	Total	Debts(2)	Troubled(5)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Construction and real estate - construction (6)	1,834.1	1,749.7	8.4	1,834.1	1,131.6	8.4	7.6	(0.8)	-	5.6
Construction and real estate - real estate activities	515.9	508.8	7.1	515.9	488.9	7.1	3.1	0.2	-	2.8
Financial services	564.6	564.6	-	372.7	165.8	-	-	0.1	0.1	0.3
Others	125.7	124.3	1.4	113.1	99.3	1.4	1.3	0.1	0.6	0.4
Total commercial	**3,040.3**	**2,947.4**	**16.9**	**2,835.8**	**1,885.6**	**16.9**	**12.0**	**(0.4)**	**0.7**	**9.1**
Private individuals - housing loans	7,537.4	7,255.8	170.1	7,537.4	7,023.9	170.1	-	0.5	4.8	60.2
Private individuals - other	1,326.2	1,264.8	36.2	1,326.2	1,091.4	36.2	16.0	40.3	31.2	45.1
Total public - activities in Israel	**11,903.9**	**11,468.0**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**
Banks in Israel	2.5	2.5	-	-	-	-	-	-	-	-
Government of Israel	1,299.4	1,299.4	-	-	-	-	-	-	-	-
Total activities in Israel	**13,205.8**	**12,769.9**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**
Foreign banks	1.6	1.6	-	-	-	-	-	-	-	-
Foreign governments	458.1	458.1	-	-	-	-	-	-	-	-
Total	**13,665.5**	**13,229.6**	**223.2**	**11,699.4**	**10,000.9**	**223.2**	**28.0**	**40.4**	**36.7**	**114.4**

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Includes: debts - NIS 10,000.9 million, bonds - NIS 1,771.0 million, assets with respect to derivative instruments - NIS 195.1 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,698.5 million).

(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.

(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).

(5) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 76.0 million and facilities which were provided to those groups, in the amount of NIS 145.2 million.

(7) Credit risk whose credit rating on the reporting date corresponds to the credit rating for the provision of new credit, in accordance with the Bank's policy.

(8) Balances lower than NIS 0.1 million are not presented in this addendum.

Risks in the housing loans portfolio

As part of its management of credit risks, the Bank implements various measures to mitigate risks which are due to the provision of housing credit. The Bank established, within the framework of the credit policy, various restrictions on the housing credit segment, in consideration of the main risk factors. The main parameters in the definition of the risk appetite in the housing loans segment include: the financing (LTV) rate, location of the property, payment to income (PTI) ratio, loan purpose, and loan period. The Bank monitors, on an routine basis, the risk profile of the mortgage portfolio, in light of the determined risk appetite.

Presented below are details regarding the development of housing credit performance (1) and main performance metrics (NIS millions):

	For the year ended December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Performance in Israeli currency	955	1,053	1,064	1,206	1,224
Performance in foreign currency	177	190	105	158	252
Total performance (2)	**1,132**	**1,243**	**1,169**	**1,364**	**1,476**
Percent of change relative to last year	(9%)	6%	(14%)	(8%)	(1%)
Variable interest, at a frequency of less than 5 years	30%	29%	28%	26%	22%
Average loan period in months	245	215	208	215	221
Average income per capita (NIS)	4,410	4,460	4,708	4,450	4,136
Distribution of performance amount by LTV ratio (2)					
0%-60%	87%	87%	87%	85%	92%
61%-75%	13%	13%	12%	14%	7%
Over 75%	- (3)	- (3)	1%	1%	1%
Distribution of performance amounts by the payment to income (PTI) ratio in housing loans (2)					
0%-40%	93%	93%	90%	70%	72%
Over 40%	7%	7%	10%	30%	28%
Of which: Percentage of performance with financing rates over 60%	1%	1%	4%	8%	4%
Distribution of number of agreements by performance amount					
0-500	59%	64%	68%	70%	74%
500-1,000	28%	24%	21%	21%	18%
Over 1,000	13%	12%	10%	9%	8%
Average loan amount	559	450	426	450	510
Loans in amounts exceeding NIS 2 million per loan:					
Number of loans	30	48	30	51	113
Total amount (NIS millions)	103	138	107	159	394

(1) New loans only
(2) The data are in accordance with Report 876 of the Banking Supervision Department.
(3) Signifies an amount less than 1%.

Presented below are details regarding various risk characteristics in the housing loans portfolio (NIS millions):

		Balance as of December 31, 2016						
		Loan age (time passed since the loan provision date) (1)						
Finance rate	**Rate of repayment from fixed income**	**Up to 3 months**	**3 months to 1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**10 years or more**	**Total**
Up to 45%	Up to 40%	51.4	388.7	439.4	627.6	361.8	81.9	1,950.8
	40%-50%	0.8	13.8	27.8	94.1	52.2	12.7	201.4
	50%-80%	1.9	11.7	9.8	78.7	71.1	16.5	189.7
	Over 80%	0.1	0.5	-	23.3	25.3	6.6	55.8
	Total	**54.2**	**414.7**	**477.0**	**823.7**	**510.4**	**117.7**	**2,397.7**
45%-60%	Up to 40%	46.7	371.2	445.1	812.4	563.7	246.3	2,485.4
	40%-50%	0.1	14.1	44.3	156.0	101.1	34.1	349.7
	50%-80%	0.3	16.0	14.3	124.9	114.3	33.9	303.7
	Over 80%	-	-	1.1	48.9	55.4	6.3	111.7
	Total	**47.1**	**401.3**	**504.8**	**1,142.2**	**834.5**	**320.6**	**3,250.5**
60%-75%	Up to 40%	8.3	115.8	141.8	195.4	381.4	56.6	899.3
	40%-50%	-	3.9	7.2	30.6	49.0	11.3	102.0
	50%-80%	-	1.4	7.2	29.1	63.5	11.0	112.2
	Over 80%	-	-	-	8.6	15.0	4.9	28.5
	Total	**8.3**	**121.1**	**156.2**	**263.7**	**508.9**	**83.8**	**1,142.0**
Over 75%	Up to 40%	25.3	11.3	15.7	25.2	35.3	29.6	142.4
	40%-50%	0.1	-	0.2	7.7	6.4	6.8	21.2
	50%-80%	-	1.2	0.2	7.7	16.6	4.4	30.1
	Over 80%	-	-	-	6.0	6.1	1.0	13.1
	Total	**25.4**	**12.5**	**16.1**	**46.6**	**64.4**	**41.8**	**206.8**
Other pledges	Up to 40%	2.4	6.3	1.3	0.3	0.3	1.4	12.0
	40%-50%	1.4	0.2	-	-	0.1	0.3	2.0
	50%-80%	-	-	-	-	2.9	-	2.9
	Over 80%	-	-	-	-	0.2	-	0.2
	Total	**3.8**	**6.5**	**1.3**	**0.3**	**3.5**	**1.7**	**17.1**
Total		**138.8**	**956.1**	**1,155.4**	**2,276.5**	**1,921.7**	**565.6**	**7,014.1**

(1) In case of refinancing, the age is counted from the date when the refinancing was implemented.

Characteristics of the Bank's housing credit portfolio

The Bank's customers in the housing loans segment belong to population groups in the middle decile and higher. In general, the Bank prefers customers with a gross family income which is no less than the average income in the economy, and the acquisition of properties in municipalities with a high degree of property liquidity, where 52% of the credit is given for properties in the Gush Dan and Greater Jerusalem areas.

On August 29, 2013, the Commissioner of Banks published a directive which restricted, with reference to housing loan, the repayment to income rate, the part of the loan which is given at variable interest, and the final period for repayment of the loan. In September 2014, the Bank of Israel published primary guidelines on the subject of restrictions on housing loans. The Bank is working in accordance with the Commissioner's directives.

The rate of repayment from income in a housing loan serves as an indicator of the customer's ability to repay the loan which they have taken. The average return on income ratio amounted to approximately 23% in the performance for 2016, similarly to the corresponding period last year Additionally, approximately 5% of the residential credit portfolio is given to customers who have a repayment to income ratio higher than 40%, and whose financing ratio is higher than 60%.

The Bank's average financing rate, which reflects the balance of the loan divided by the revalued value of the assets as of December 31, 2016, as evaluated relative to the Bank's existing credit portfolio, is low, and amounts to approximately 28% (the revalued value of assets is calculated from the date of the last assessment, according to the housing prices index, as published by the Central Bureau of Statistics, distributed by geographical regions and by number of rooms).

In recent years, in accordance with the credit policy, the Bank reduced the exposure to credit risks by restricting the maximum financing rate to 75% of the value of the pledged asset. Additionally, according to the credit policy, the Bank does not provide loans which include an element of postponing principal payment payments for long periods.

The balance of the loans secured by secondary pledges, or where the Bank's security rights are not guaranteed, is immaterial. The Bank has no housing loans regarding which the information is incomplete.

In 2016, approximately 7% of total housing credit performance (NIS 80 million) was given for a period exceeding 25 years, at fixed interest, as compared with approximately 13.5% (NIS 192 million) in the corresponding period last year.

The period of the original loan for 93% of the residential credit portfolio is lower than 25 years. The Bank does not provide loans for periods exceeding 30 years.

Housing credit provision process:

The mortgage activity primarily includes the provision of housing loans against the pledging of residential apartments for residents of Israel, through various linkage bases and according to several different interest tracks, and for foreign residents, in primary currencies (mostly the USD, GBP and EUR).

The portfolio of housing loans include two types of loans: loans from the Bank's funds, and loans from government funds, and its liability to entitled individuals according to the Ministry of Construction & Housing (hereinafter: "Budget Loans") which amounted, as of December 31, 2016, to a total of approximately NIS 954 million. The Bank has no credit risk on the budget loans.

The process of preparing and approving credit regarding the pledging of residential apartments is a standard, structured process. Approval for the loan is given in the branch and/or is submitted to a more senior approving authority, in accordance with the hierarchy of authorities determined by the Bank's Board of Directors.

The process requires the separation of roles (the credit officer is not entitled to approve the requests which he evaluates - this option is blocked by the IT system) such that even requests under the branch's authority cannot be performed by a single senior position holder.

Requests which are beyond the authority of the branch manager are submitted to the underwriting center for approval. The underwriting center is responsible for re-evaluating the request, and for approving or rejecting it. If the credit request requires an authority higher than the underwriting center, the underwriting center formulates a recommendation and submits it for approval to a more senior figure (Division Manager, CEO or Credit Committees), in accordance with the relevant authority.

As part of the loan creation process, credit portfolios under mortgage activities are also evaluated by a central evaluation unit which evaluates the completeness of the portfolio after all required documents and securities have been received. This unit is subject to the back end operation unit in the resources division, thereby implementing managerial separation between the credit approval process and the submission of documents, and the evaluation thereof, prior to the implementation.

The housing loan activities are closely supported through legal accompaniment by attorneys from the Bank's legal department, who evaluate, inter alia, the legal adequacy of agreements and types of collateral.

For detailed qualitative and quantitative information regarding credit risks, which is given in accordance with the disclosure requirements of Pillar 3, and for additional information, see the risks report on the Bank's website.

Risks in the portfolio of loans to private individuals without housing loans

Presented below is the balance of credit to private individuals (non-residential):

	As of December 31		
	2016	**2015**	**2014**
Consumer loans - solo	935.1	866.4	729.7
Other retail credit (1)	188.8	225.0	262.4
Total, credit to private individuals (non-residential)	**1,123.9**	**1,091.4**	**992.1**
* Of which, non-troubled	1,087.0	1,055.4	957.4
Troubled, under 90 days	10.6	9.4	11.0
Troubled, over 90 days	10.6	10.7	11.4
Impaired debts which accrue interest income	7.2	6	3.5
Impaired debts which do not accrue interest income	8.5	9.9	8.8
Total credit to private individuals (non-residential)	**1,123.9**	**1,091.4**	**992.1**
(1) Composition:			
Checking account balances in debt	18.5	17.9	18.7
Vehicle, credit cards and oher	170.3	207.1	243.7
Total other retail credit	**188.8**	**225.0**	**262.4**

In 2016, the balance of solo consumer credit increased at a rate of approximately 8%, while the balance of retail credit increased at a rate of 3%.

Presented below are data regarding accounting write-offs:

	For the year ended December 31		
	2016	**2015**	**2014**
Accounting write-offs	41.3	37.1	30.5
Collection of debts which were written off in previous years	(9.8)	(5.9)	(6.7)
Total write-offs	**31.5**	**31.2**	**23.8**

Approximately 3% of the balance of credit as at the end of 2016 is classified as troubled, and during the year, accounting write-offs were at a rate of 2.8% of the total credit to private individuals (non-housing).

Exposure of the Bank and its consolidated companies to changes in interest rates

	December 31, 2016					
	On demand Up to one month	Over one month Up to 3 months	Over 3 months Up to one year	Over one year Up to 3 years	Over 3 years Up to 5 years	Over 5 years Up to 10 years
	NIS millions					
Unlinked Israeli currency						
Financial assets	6,056.6	203.1	1,109.2	788.2	235.4	364.6
Derivative financial instruments (excluding options)	6.2	19.1	114.5	-	-	2.6
Total fair value	6,062.8	222.2	1,223.7	788.2	235.4	367.2
Financial liabilities	(6,113.7)	(393.4)	(484.2)	(840.2)	(534.9)	(9.3)
Derivative financial instruments (excluding options)	(161.5)	-	-	(1.0)	-	-
Total fair value	(6,275.2)	(393.4)	(484.2)	(841.2)	(534.9)	(9.3)
Financial instruments, net						
Exposure to interest rate changes in the segment	(212.4)	(171.2)	739.5	(53.0)	(299.5)	357.9
Cumulative exposure in the segment	(212.4)	(383.6)	355.9	302.9	3.4	361.3
CPI-linked Israeli currency						
Financial assets	231.0	157.4	751.3	1,022.0	621.8	304.1
Derivative financial instruments (excluding options)	-	-	-	-	-	-
Total fair value	231.0	157.4	751.3	1,022.0	621.8	304.1
Financial liabilities	(273.8)	(382.1)	(815.2)	(738.6)	(808.5)	(283.3)
Derivative financial instruments (excluding options)	-	-	(50.0)	-	-	-
Total fair value	(273.8)	(382.1)	(865.2)	(738.6)	(808.5)	(283.3)
Financial instruments, net						
Exposure to interest rate changes in the segment	(42.8)	(224.7)	(113.9)	283.4	(186.7)	20.8
Cumulative exposure in the segment	(42.8)	(267.5)	(381.4)	(98.0)	(284.7)	(263.9)
Foreign currency (2)						
Financial assets	808.9	68.1	203.1	222.8	119.1	59.0
Derivative financial instruments (excluding options)	253.8	2.2	-	-	-	-
Total fair value	1,062.7	70.3	203.1	222.8	119.1	59.0
Financial liabilities	(838.7)	(339.9)	(325.3)	(67.5)	-	(0.5)
Derivative financial instruments (excluding options)	(95.7)	(21.5)	(65.1)	-	-	(0.3)
Total fair value	(934.4)	(361.4)	(390.4)	(67.5)	-	(0.8)
Financial instruments, net						
Exposure to interest rate changes in the segment	128.3	(291.1)	(187.3)	155.3	119.1	58.2
Cumulative exposure in the segment	128.3	(162.8)	(350.1)	(194.8)	(75.7)	(17.5)
Total exposure to changes in interest rates						
Total assets	7,096.5	428.6	2,063.6	2,033.0	976.3	727.7
Derivative financial instruments (excluding options)	260.0	21.3	114.5	-	-	2.6
Total fair value	7,356.5	449.9	2,178.1	2,033.0	976.3	730.3
Total liabilities	(7,226.2)	(1,115.4)	(1,624.7)	(1,646.3)	(1,343.4)	(293.1)
Derivative financial instruments (excluding options)	(257.2)	(21.5)	(115.1)	(1.0)	-	(0.3)
Total fair value	(7,483.4)	(1,136.9)	(1,739.8)	(1,647.3)	(1,343.4)	(293.4)
Financial instruments, net						
Exposure to interest rate changes in the segment	(126.9)	(687.0)	438.3	385.7	(367.1)	436.9
Cumulative exposure in the segment	(126.9)	(813.9)	(375.6)	10.1	(357.0)	79.9

Exposure of the Bank and its consolidated companies to changes in interest rates

December 31, 2016						December 31, 2015		
Over 10 years Up to 20 years	Over 20 years	No repayment period (1)	Total	Internal rate of return	Average lifetime	Total	Internal rate of return	Average lifetime
NIS millions				%	Years		%	Years
92.4	21.7	10.5	8,881.7	3.82	0.86	8,582.5	3.31	0.91
-	-	-	142.4		0.50	158.7		0.48
92.4	21.7	10.5	9,024.1	3.82	0.85	8,741.2	3.31	0.90
(1.4)	-	-	(8,377.1)	0.55	0.42	(7,733.4)	0.42	0.37
-	-	-	(162.5)	-	0.09	(411.6)	-	0.09
(1.4)	-	-	(8,539.6)	0.55	0.42	(8,145.0)	0.42	0.35
91.0	21.7	10.5	484.5	3.27	0.44	596.2	2.89	0.55
452.3	474.0	484.5	484.5			596.2		
226.4	26.2	-	3,340.2	4.48	3.02	3,528.8	3.86	3.23
-	-	-	-			198.2		0.11
226.4	26.2	-	3,340.2	4.48	3.02	3,727.0	3.86	3.07
(0.9)	-	-	(3,302.4)	1.17	2.00	(3,711.8)	1.15	2.34
-	-	-	(50.0)			-		-
(0.9)	-	-	(3,352.4)	1.17	1.97	(3,711.8)	1.15	2.34
225.5	26.2	-	(12.2)	3.30	1.02	15.2	2.71	0.89
(38.4)	**(12.2)**	**(12.2)**	**(12.2)**			15.2		
7.9	15.2	-	1,504.1	2.80	1.19	1,774.6	2.67	1.44
-	1.1	-	257.1	-	0.21	267.1	-	0.09
7.9	16.3	-	1,761.2	2.80	1.04	2,041.7	2.67	1.26
-	-	-	(1,571.9)	0.55	0.24	(1,830.5)	0.37	0.20
-	-	-	(182.6)	-	0.28	(212.5)	-	0.38
-	-	-	(1,754.5)	0.55	0.24	(2,043.0)	0.37	0.22
7.9	16.3	-	6.7	2.25	0.80	(1.3)	2.30	1.04
(9.6)	6.7	6.7	6.7			(1.3)		
326.7	63.1	10.5	13,726.0	3.87	1.42	13,885.9	3.37	1.57
-	1.1	-	399.5		0.32	624.0		0.19
326.7	64.2	10.5	14,125.5	3.87	1.39	14,509.9	3.37	1.51
(2.3)	-	-	(13,251.4)	0.71	0.79	(13,275.7)	0.62	0.90
-	-	-	(395.1)		0.17	(624.1)		0.19
(2.3)	-	-	(13,646.5)	0.70	0.78	(13,899.8)	0.62	0.86
324.4	64.2	10.5	479.0	3.16	0.61	610.1	2.75	0.64
404.3	468.5	479.0	479.0			610.1		

Exposure of the Bank and its consolidated companies to changes in interest rates (Cont.)

Notes

A. Additional details regarding the exposure to changes in interest rates in each segment, by the various balance sheet items, will be submitted upon request.

B. In this table, the periodic data demonstrate the present value of future flows of each financial instrument, discounted by interest rates which reduce them to the fair value included with respect to the financial instrument in Note 21 to the financial statements, in a manner which is consistent with the assumptions which were used to calculate the fair value of the financial instrument.

C. The internal rate of return is the interest rate which deducts the expected cash flows from the financial instrument to the fair value which is included for it in Note 21 to the financial statements.

D. The effective duration of a group of financial instruments constitutes an approximation of a change in percent in the fair value which will be caused as a result of a small change in the internal rate of return of each of the financial instruments.

(1) Balance-sheet balances are presented under the column "no repayment period".

(2) Local operations, including Israeli currency linked to foreign currency.

Presented below is the development of the performance of solo consumer loans and key performance indicators:

	2016	2015	2014
Performance during the period (NIS millions)	634	687	667
Performance rate of the loan repayment ratio which was performed from the borrower's total income			
Repayment ratio under 20%	95%	97%	98%
Repayment ratio over 20%	5%	3%	2%
Performance rate by original loan period			
Up to 6 years	99.8%	99.6%	99.6%
Over 6 years	0.2%	0.4%	0.4%
Average loan period (years)	5.4	4.9	4.6
Loan amounts (NIS thousands)			
Up to 50	71%	75%	83%
50 to 60	6%	7%	6%
60 to 70	10%	7%	3%
70 to 80	7%	8%	7%
Over NIS 80 thousand	6%	3%	1%
Average loan amount (in thousands of NIS)	40	42	44

Characteristics of the credit portfolio for the Bank's solo consumer loan customers

Solo consumer loans are mainly given to private customers, residents of Israel who request to receive credit for any purpose, for a set period. These customers mostly have high ratings in accordance with the underwriting model on the date of the provision of the loan by the Bank.

Most of the credit is given to customers who manage their checking accounts at another bank, such that the balance of solo consumer loans to active checking account customers at the Bank, as of December 31, 2016, amounts to approximately NIS 202 million (approximately 20% of the credit balance), as compared with a balance of approximately NIS 231 million as of December 31, 2015 (approximately 25% of the credit balance).

The activity is characterized by significant distribution of customers, each of whom was given credit at a relatively low scope (approximately NIS 40 thousand on average), the Bank has no significant dependence on any individual customer.

These loans are given based on the prime interest rate, and are therefore exposed changes in the interest rate. However, the loan period, in general, is up to 6 years, while the duration is 2.7 years (no early repayment assumption), and therefore, the customer's exposure to an increase in payments is a relatively low risk.

Additionally, the absolute majority of solo consumer credit performance is characterized by a ratio of return on requested loans to total income of up to 20%. In accordance with the Bank's credit policy, the Bank is also evaluating the ratio between the total repayment of all of the customer's liabilities, and the customer's total income.

In general, the Bank provides loans for maximum periods of up to six years, and therefore, 99.8% of the loans are given for this period. Additionally, most of the loans in the Bank are given for amounts of up to NIS 50 thousand, and the average loan amount during the last 3 years ranged between NIS 40 and 44 thousand.

Credit provision process for solo consumer loans

The credit provision process for customers is implemented through one of the following channels: call center, website or the Bank's branches.

The authorized entities at the Bank are authorized to approve solo consumer credit by evaluating the request using the credit underwriting system. The credit underwriting system includes the credit policy rules and the rating model, which are used to obtain a recommendation regarding credit approval.

Additionally, an evaluation of credit provision will be performed in accordance with the Bank's policy, with an emphasis on the following rules:

- Understanding of the customer's credit requirements and repayment ability.
- Understanding and analysis of the customer's permanent source of income, the amount thereof, and of their total liabilities.
- Understanding and analysis of the customer's risk level, in accordance with the rating group, based on the rating model.
- The Bank's experience with the customer, if any, and experience vis-à-vis the relevant customer segment. When providing solo consumer loans to new customers, the Bank obtains full underwriting material.

When providing loans to existing customers, the Bank relies, inter alia, on existing underwriting material, on its knowledge of the customer, and their declarations, and receives updates to the underwriting materials, if necessary.

The Bank has established rules for initiated marketing and provision of credit, in accordance with the circular of the Bank of Israel dated June 23, 2015. The target markets who are contacted through initiating marketing include the Bank's current customers who meet the Bank's credit policy, as specified above.

In general, when contact is initiated for the provision of solo consumer loans, the risk indicators are evaluated. This evaluation is performed before contacting the customer, and subject to their fulfillment of certain criteria.

Supervision and followup regarding risk characteristics

As part of this activity, the risk is controlled and monitored in the Bank, and reports are given to management and Board of Directors on a routine basis, including:

- Reports regarding the findings of underwriting and credit management controls.
- Following and reporting regarding the rates of arrears and provisions from the activity.
- Reports regarding characteristics and trends in the credit portfolio and compliance with all of the restrictions which were determined in the credit policy.

Credit to finance the construction of real estate projects

The Bank provides credit to finance the construction of residential projects is through the closed accompaniment method, and provides guarantees of various types depending on the specific needs of each project, and in accordance with its characteristics. In the closed accompaniment method, the project is separated from the customer's other activities. A designated account is opened for the project, which is used for the purpose of that project only, to which are deposited the funds which are received from the buyers of residential units, as well as equity and the Bank's credit. These funds are used to perform the project and are released in accordance with the rate of progress on construction, in accordance with reports issued by an expert supervisor. As part of the financing of the construction project, the Bank also provides performance guarantees, monetary guarantees, and guarantees in accordance with the Sale Law to unit buyers in the project. The land and receipts are pledged in favor of the Bank. In most transactions, collateral in accordance with the Sale Law is issued by insurance companies with whom the Bank has a collaboration agreement.

The Bank collaborates with financial entities in the provision of credit for the project in order to expand the scope of its activities and achieving profitable returns, while distributing credit risks and fulfilling the required regulatory restrictions.

The Bank manages, as of the end of 2016, approximately 280 projects, of which approximately 50 are projects in collaboration through monetary credit. The scope of the managed portfolio is approximately NIS 7 billion, of which approximately NIS 1 billion is under the Bank's responsibility, and the remainder is through the insurance companies.

The Bank finances the projects from the land acquisition stage through the various construction stages. As of December 31, 2016, credit which was given for projects in the land stage constitutes 51%, in terms of debt, of the Bank's real estate portfolio. It is noted that 77% of the credit in projects which are in the land stage is given to projects which are available for construction within 12 months. Credit for financing of lands is given for lands whose expected construction period is no longer than 24 months from the land financing date.

As of December 31, 2016, credit which was given for projects in the Central Israel area constitutes 58%, in terms of credit scope, of the Bank's real estate portfolio, 14% in Greater Jerusalem and 28% in the rest of the country.

For additional details, see the report regarding corporate governance and additional details in the chapter on operating segments.

Exposure to foreign countries (NIS millions):

Part A - Information regarding total exposures to foreign countries, and regarding exposures to countries where the total exposure amount to each of them is over 1% of total consolidated assets, or over 20% of capital, whichever is lower

December 31, 2016													
	Balance sheet exposure (2)									Off-balance sheet exposure (2)(3)			
Country	Balance sheet exposure above the limit			Balance sheet exposure of branches of the banking corporation in a foreign country to local residents			Total balance sheet exposure					Balance sheet exposure above the limit (2)	
	To governments (4)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deducting local liabilities		Troubled balance sheet credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Troubled off-balance sheet credit risk	Repayable - up to one year	Repayable - over one year
United States	149.2	14.7	149.3	-	-	-	358.2	-	-	-	-	67.3	290.9
Others	110.0	13.1	165.4	-	-	-	288.5	-	-	5.3	-	136.6	151.9
Total exposures to foreign countries	**259.2**	**27.8**	**359.7**	**-**	**-**	**-**	**646.7**	**-**	**-**	**5.3**	**-**	**203.9**	**442.8**
Of which: Total exposures to LDC countries	**-**	**-**	**4.5**				**4.5**	**-**	**-**	**-**	**-**	**-**	**4.5**
Of which: Total exposures to GIIPS countries(5)	**-**	**-**	**3.4**				**3.4**	**-**	**-**	**-**	**-**	**-**	**3.4**

December 31, 2015													
	Balance sheet exposure [2]									Off-balance sheet exposure [2],[3]			
Country	Balance sheet exposure above the limit			Balance sheet exposure of branches of the banking corporation in a foreign country to local residents			Total balance sheet exposure					Balance sheet exposure above the limit [2]	
	To governments [4]	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deducting local liabilities		Troubled balance sheet credit risk	Impaired debts	Total off-balance sheet exposure	Of which: Troubled off-balance sheet credit risk	Repayable - up to one year	Repayable - over one year
United States	366.8	0.1	262.8	-	-	-	629.7	-	-	21.1	-	275.6	354.1
Others	91.4	89.9	130.8	-	-	-	312.1	-	-	26.1	-	186.0	126.1
Total exposures to foreign countries	**458.2**	**90.0**	**393.6**	**-**	**-**	**-**	**941.8**	**-**	**-**	**47.2**	**-**	**461.6**	**480.2**
Of which: Total exposures to LDC countries	**-**	**-**	**5.4**	**-**	**-**	**-**	**5.4**	**-**	**-**	**-**	**-**	**-**	**5.4**
Of which: Total exposures to GIIPS countries[5]	**-**	**-**	**1.0**	**-**	**-**	**-**	**1.0**	**-**	**-**	**-**	**-**	**-**	**1.0**

(1) Based on final risk, after the impact of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, as well as troubled credit and impaired debts risk, are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.
(4) Governments, institutions, officials and central banks.
(5) Exposure to the GIIPS countries, including Portugal, Ireland, Italy, Greece and Spain.

Part B - Information regarding countries where the total exposure to each of them is between 0.75% and 1% of total consolidated assets, or

Between 15% and 20% of capital, whichever is lower

As of December 31, 2016

Does not exist.

As of December 31, 2015

Exposure country: Germany

Total aggregate balance sheet exposure in this part: NIS 116.7 million (of which, NIS 71.6 million to banks).

Part C - Information regarding balance sheet exposure to foreign countries with liquidity problems in 2016

A. Movement in the total balance sheet exposure to foreign countries with liquidity problems:

	As of December 31, 2016						
	Venezuela	Argentina	Russia	Spain	Ireland	Portugal	Total
Exposure amount at start of reporting period	4.5	3.7	0.8	1.0	-	-	10.0
Net changes in the short term exposure amount	(0.6)	(0.6)	(0.5)	-	2.4	-	0.7
Exposure amount at end of reporting period	3.9	3.1	0.3	1.0	2.4	-	10.7

	As of December 31, 2015						
	Venezuela	Argentina	Russia	Spain	Ireland	Portugal	Total
Exposure amount at start of reporting period	4.9	4.1	3.2	1.1	4.2	2.4	19.9
Net changes in the short term exposure amount	(0.4)	(0.4)	(2.4)	(0.1)	(4.2)	(2.4)	(9.9)
Exposure amount at end of reporting period	4.5	3.7	0.8	1.0	-	-	10.0

B. The Bank has no exposures to foreign countries which underwent restructuring.

Credit exposures(1)(2) to foreign financial institutions(3) on a consolidated basis (NIS millions):

	Total credit exposure (3)	
External credit rating (2)	As of December 31 2016	As of December 31 2015
AAA to AA-	26	15
A+ to A-	13	11
BBB- to BBB+	25	100
Unrated	2	62
Total exposure	66	188

(1) Banks, holding companies of banks, investment banks and brokers.

(2) Regarding deposits and checking account balances in banks. The Bank has no off-balance sheet credit risk. Rating according to the rating company S&P. Balances of less than NIS 1 million are not presented.

(3) Checking account deposits and balances in banks. The Bank has no off-balance sheet credit risk

(4) There are no financial institutions which are classified as debt which is impaired, subordinate or subject to special supervision, and there is no provision for credit losses. The balances presented in the above table primarily include institutions operating in the United States, Germany, Belgium and Denmark.

The Bank established restrictions on the maximum permitted exposure to foreign financial institutions, and conducts routine monitoring of the stability of such entities, based on the rating of the companies and other market data which indicate their economic situation.

Exposure to environmental risks

The Bank's current activities focus on borrowers from the retail segment, which have a low exposure to environmental risks. As a result, the Bank's exposure to this risk is insignificant. The Bank's credit provision activities in the real estate, construction and commercial segments for corporations and individuals does not expose the Bank to any significant environmental risk, inter alia, in light of the Bank's avoidance of the provision of credit in segments which are prone to environmental pollution.

Clearing risks and counterparty risks

Clearing risk is the risk that a counterparty to an agreement will not fulfill its part, and will not transfer to the Bank, on the specified date, the required amount at the time of the clearing of the transaction. The exposure to clearing risk is in the short term, and is generally intra-daily.

The main source for the Bank's exposure to settlement risks is the clearing of derivative transactions (OTC). The Bank does not operate vis-à-vis its customers with OTC derivatives, but rather with derivative instruments which are traded on various stock exchanges, including minimum settlement risk. The Bank is exposed to settlement risks in its activities on its own behalf, although the scope of these activities is immaterial. Additionally, the Bank is exposed to settlement risks due to the trading of foreign securities, which is performed vis-à-vis brokers by means of non-DVP settlement processes. The scope of non-cleared DVP transactions is relatively small.

Most of the Bank's exposures to counterparty risk materialize vis-à-vis banks in Israel and abroad, and vis-à-vis recognized foreign financial institutions, with respect to the settlement of derivative transactions (OTC), and vis-à-vis brokers and providers of custodian service for securities, with respect to the settling of transactions with foreign securities. The framework for activities with these institutions is approved at least once per year by the Bank's Board of Directors, as part of the credit facilities of those institutions. During the year, no settlement risks or counterparty risks materialized for the Bank.

Risk mitigation - the Bank signed ISDA agreements and CSA annexes vis-à-vis most of the banks with which activities with derivatives are performed. This allows offsetting of the transactions, in a manner whereby the amount transferred between the parties to the transaction amounts to the net exposure amount, which results in reduced exposure for each of the parties. The CSA annexes regulate monetary transfers between the parties to the transaction, insofar as the exposure amounts to a certain predetermined scope, thereby reducing the exposure to the counterparty.

For additional details, see Note 1 to the financial statements.

3.2 Market risk

Review of market risks and methods for the management thereof

The Bank's business results, the fair value of assets, liabilities, equity and cash flows are exposed to market risks which are due to the fluctuation of interest rates, exchange rates, the consumer price index, the prices of Israeli and foreign securities, and other economic indicators.

This risk group includes several specific types of risks, which are specified below and are managed by the Bank in a similar fashion, based on frameworks, policies and restrictions as determined by the Board of Directors.

For an extensive description of the work system regarding the management and control of market risks, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

VaR

The Bank quantifies market risks according to the Value at Risk (VaR) methodology.

The VaR estimates the maximum loss which the Bank is expected to incur in case of the realization of market risks during a given time period, and according to a predetermined statistical confidence level, according to previously observed market conditions. The calculation is performed in the Bank once per month, for a holding period of 10 days, and with a significance level of 99%. The Bank measures its overall risk using the VaR of the total banking portfolio, and the risk exposure of its trading portfolio, using this system. In addition to management and control using the VaR model, the Bank also uses other models for the quantification of risks.

Risk measured by VaR refers to the potential damage from the holding of balance sheet and off-balance sheet positions, including the positions of the trading portfolio which are exposed to market risks.

Presented below is an estimate of VaR:

	Estimated VaR For the year ended			
	December 31, 2016		**December 31, 2015**	
	End of reporting period	Maximum value During the year	End of reporting period	Maximum value During the year [1]
Actual exposure	7.9	8.9	10.1	12.0
The Bank's restriction	18.0	20.0	20.0	20.0

Risk hedging and/or mitigation policy

The Bank's financial risk management policy is based on the management of its exposures to market and liquidity risks, by determining quantitative restrictions which correspond to the Bank's risk appetite. The measures which are used to comply with the restrictions include, inter alia, buying and selling marketable securities (primarily bonds of the Government of Israel), raising non-marketable deposits (from private and institutional customers), raising marketable deposits and activities with derivative financial instruments.

Interest rate risk

Review of the risk and management thereof

Interest rate risk is due to the difference between the sensitivity of assets to changes in interest rates and the same sensitivity of the liabilities which is due to the difference between repayment dates and the interest change dates of the assets and liabilities in each segment. These changes may harm profitability and/or may result in erosion of the Bank's profitability. The Bank's activities as a financial intermediary creates exposure to this risk, and the Bank strives to reduce it. The Bank's main exposure is in the unlinked NIS segment, due to the increase in the scope of activities in the credit segment, due to directives issued by the Bank of Israel which restrict the scope of housing loans at variable interest and in the nostro portfolio. There is also exposure in the CPI-linked segment, since in this segment, the majority of assets and liabilities are at long term fixed interest.

The Bank monitors conventional metrics for the measurement of interest rate risk of loans against deposits, with the aim of adjusting the effect of a possible change in interest rates on the value of its net financial cash flow to the Bank's risk appetite. These tools include the measurement of differences in duration, quantification by means of the VaR model, and estimation of exposure in various scenarios. The Bank also monitors the scope of early repayments on loans, which have a significant impact on the effective duration.

The Bank's policy in its management of interest rate risk is determined in consideration of expectations regarding developments in various interest rates, while evaluating costs to reduce the exposure to this risk, in consideration of the estimated early repayment rate of the loans, and their influencing factors. The estimated early repayment rate is prepared based on historical data and on the Bank's assumptions regarding several factors which affect this rate, primarily the interest rate. The assumption regarding the early repayment of the loans is used in the CPI-linked segment to calculate the gaps in duration and the exposure to interest rate risk.

According to the Bank's estimate, in consideration of the scope of early repayments in recent years, and of the exposures in all linkage segments, the exposure to risk as a result of an unexpected change of 1 percentage point in the interest rates is low relative to the Bank's discounted net cash flow. This estimate of the Bank constitutes forward looking information, which may be realized differently from the forecast, in light of the fact that it is based on the scope of early repayments in past years, and the exposures in all of the linkage segments, and it is possible that the actual scope of repayments in the future will be different.

Information regarding the effects of hypothetical changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated companies (NIS millions):

A. Fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items (before hypothetical changes in interest rates):

	As of December 31, 2016				
	Israeli currency		Foreign currency[2]		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets [1]	8,881.7	3,340.2	1,147.8	356.3	13,726.0
Amounts receivable with respect to derivative financial instruments [3]	142.4	-	196.2	60.9	399.5
Financial liabilities	8,377.1	3,302.4	1,199.6	372.3	13,251.4
Amounts payable with respect to derivative financial instruments [3]	162.5	50.0	139.3	43.3	395.1
Fair value, net	484.5	(12.2)	5.1	1.6	479.0

	As of December 31, 2015				
	Israeli currency		Foreign currency[2]		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets [1]	8,582.5	3,528.8	1,485.5	289.1	13,885.9
Amounts receivable with respect to derivative financial instruments [3]	158.7	198.2	223.6	43.5	624.0
Financial liabilities	7,733.4	3,711.8	1,532.3	298.2	13,275.7
Amounts payable with respect to derivative financial instruments [3]	411.6	-	177.9	34.6	624.1
Fair value, net	596.2	15.2	(1.1)	(0.2)	610.1

(1) Not including balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Amounts receivable (payable) with respect to derivative financial instruments and with respect to off-balance sheet financial instruments, discounted by interest rates which were used to calculate fair value.

B. Impact of hypothetical changes in the interest rates on the fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items:

As of December 31, 2016						
	Net fair value of financial instruments, after impact of changes in interest rates (NIS millions)				Change in fair value	
	Israeli currency		Foreign currency (2)		NIS millions	In percent
Change in interest rates	Unlinked	CPI-linked	USD	Other	Total	Total
Corresponding immediate increase of one percent	480.5	(20.6)	5.0	(0.4)	(14.5)	(3.03%)
Corresponding immediate increase of 0.1 percent	484.0	(13.1)	5.1	1.4	(1.6)	(0.33%)
Corresponding immediate decrease of one percent	492.8	(2.2)	4.8	3.6	20.0	4.18%

As of December 31, 2015						
	Net fair value of financial instruments, after impact of changes in interest rates (NIS millions)				Change in fair value	
	Israeli currency		Foreign currency (2)		NIS millions	In percent
Change in interest rates	Unlinked	CPI-linked	USD	Other	Total	Total
Corresponding immediate increase of one percentage point	580.1	30.4	(0.8)	(1.4)	(1.80)	(0.30%)
Corresponding immediate increase of 0.1 percent	594.5	16.8	(1.1)	(0.3)	(0.20)	(0.03%)
Corresponding immediate decrease of one percentage point	615.1	(0.8)	(1.7)	1.1	3.65	0.60%

(1) Not including balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (payable) with respect to derivative financial instruments and with respect to off-balance sheet financial instruments, discounted by interest rates which were used to calculate fair value.

C. Presented below is the summary of unexpected changes in interest (NIS millions):

	Potential change in economic value - profit (loss)				Potential change in annual profit - profit (loss)	
	As of December 31					
	2016		2015		2016	2015
Impact of corresponding immediate change in yield curve	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%	Increase of 1%
Unlinked	(4.0)	8.3	(16.1)	18.9	16.9	17.2
Linked	(8.4)	10.0	15.2	(16.0)	(3.8)	(2.2)
Foreign currency	(2.1)	1.7	(0.9)	0.8	2.8	7.3
Total	**(14.5)**	**20.0**	**(1.8)**	**3.7**	**15.9**	**22.3**
Restriction	(40.0)	20.0	(60.0)	(60.0)	(30.0)	(20.0)
Maximum during the period	10.9	22.8	0.2	15.2	28.7	23.4
Minimum during the period	(19.6)	(10.6)	(12.3)	1.0	15.9	15.2

For additional details, see the report regarding risks on the Bank's website.

Presented below is the duration of assets and liabilities (in years):

	As of December 31, 2016			As of December 31, 2015		
	Unlinked	Linked	Foreign currency and linked to foreign currency	Unlinked	Linked	Foreign currency and linked to foreign currency
Duration of assets (1)	0.85	3.02	1.04	0.90	3.07	1.26
Duration of liabilities (1)	0.42	1.97	0.24	0.35	2.34	0.22
Duration gap in years	0.44	1.05	0.80	0.55	0.72	1.04
Collaboration difference (%)	3.27	3.30	2.25	2.89	2.71	2.30

(1) Includes future transactions and options, with reliance on the fair value data of the financial instruments.

For the total assets and liabilities, the duration gap is 0.61 years, and the collaboration is 3.16%.

Exchange rate risk and inflation risk

The exposure to basis risk, as reflected in loss which may be incurred, by changes in the CPI and in the exchange rate. The Bank's policy is to manage the risks from the base exposure in a controlled manner, and in accordance with developments in the financial markets.

As part of the management of market risks, the Bank manages, on an ongoing basis, its positions in the various linkage segments, through the variety of financial instruments which are available to it, in consideration of changes which occur in relevant economic figures, and routine monitoring of the risks which are due to this exposure. The restrictions were determined while retaining the Bank's flexibility and its ability to change the various positions in a short period, in accordance with economic forecasts. In order to restrict the exposure to this risk, the Bank's Board of Directors determined the maximum rates of exposure in each linkage segment.

Presented below are the restrictions on the exposure rates of each linkage segment, as determined by the Board of Directors (which is not necessarily the exposure that affects profit and loss). Restrictions are on the surplus (deficit) amounts of the assets on the liabilities in each segment:

	As of December 31, 2016				
	Approved restriction (1)		Approved restriction		Actual exposure
	In percent of financial capital (2)		NIS millions		
	Maximum	Minimum	Maximum	Minimum	
Unlinked	125%	50%	805	322	528
Linkage to index	50%(3)	(25%)	322(3)	(161)	105(3)
In foreign currency and linked to foreign currency	5.9%	(5.9%)	38	(38)	11

(1) Maximum limits according to the approval of the Bank's Board of Directors. The restrictions were updated by the Board of Directors in December 2015.
(2) Financial capital is equity less consolidated non-monetary assets.
(3) Not including savings plans with a NIS lower limit of NIS 490 million (the approved restriction includes savings plans with a NIS lower limit is 100%, NIS 644 million, and actual exposure is NIS 595 million.

The Bank measures its positions in the various linkage bases on a routine basis. This information is reported to the units which are responsible for management of the position and adjusting it to the applicable restrictions. The information regarding the reported amount of the positions is routinely reported in the meetings of the assets and liabilities management committee, and in the meetings of other forums which are engaged in risk management.

Presented below are data regarding the Bank's fair value sensitivity to changes in the consumer price index (NIS millions)*:

Scenario	As of December 31, 2016	Maximum for 2016	Minimum for 2016
CPI increase of 5%	2.1	15.4	(6.3)

*The change is in theoretical economic value

The Bank manages the position in foreign currency on an ongoing basis. The Bank's Board of Directors established restrictions on the surplus (deficit) amounts of assets on liabilities. The Bank only operates with the major currencies, and in scopes which are proportional to financial capital. Calculation of the surplus (deficit) includes the impact of derivatives.

Presented below are details regarding the sensitivity of the Bank's capital to changes in currency rates, in millions of NIS (the theoretical change in economic value as a result of the scenario, where the scenario involving an increase means an increase of the relevant currency relative to the NIS):

	As of December 31, 2016		Maximum for 2016		Minimum for 2016	
Scenario	USD	Other	USD	Other	USD	Other
Increase of 10%	0.3	0.5	1.2	0.7	(1.8)	0.5
Increase of 5%	0.1	0.3	0.6	0.3	(0.9)	0.3
Decrease of 10%	(0.3)	(0.5)	1.8	0.5	(1.2)	(0.7)
Decrease of 5%	(0.1)	(0.3)	0.9	0.3	(0.6)	(0.3)

As part of the Bank's overall strategy regarding the management of exposure to market risks, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to these risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions and forward foreign currency contracts.

Transactions with derivative financial instruments are recorded at fair value, and changes in fair value are routinely recorded in the statement of income. Additionally, the Bank engages in independent contracts which do in themselves constitute derivative instruments, but which do contain embedded derivatives. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. Inter-currency exposure is managed under a limited framework, and subject to the restrictions which were approved by the Bank's Board of Directors.

For additional details, see Note 31 to the financial statements.

Stock price risk

As part of the policy regarding financial risks (market risks), the Bank's Board of Directors determined a limited framework of NIS 40 million for investment in ETF's and stocks in the trading portfolio and in the available for sale portfolio (there is no framework for the acquisition of stocks in the banking portfolio). The balance of the investment in stocks and ETF's as of December 31, 2016 (in the trading portfolio and the available portfolio) amounted to NIS 6.1 million, as compared with NIS 8.5 million as of December 31, 2015.

3.3 Liquidity and financial risk

Liquidity risk

Review of the risk and management thereof

"Liquidity" is defined as a corporation's ability to finance an increase in assets, and its ability to service its liabilities. Liquidity risk is the risk of harm to capital and to the stability thereof, due to the inability to meet liquidity requirements, as a result of uncertainty regarding the availability of sources and the ability to raise them, unexpectedly within a short period of time, without incurring significant losses, and the ability to realize assets in a defined period and at a reasonable price. The exposure is due to the provision of long-term loans (even if these were given at variable interest) which are financed by short-term deposits.

The Bank is exposed to liquidity risk and to the concern of a deterioration in the ability to raise marketable or institutional debt due to changes on the market, legislative changes and/or changes in the preferences of depositors. In order to deal with this risk, the Bank has implemented, for several years, a policy of expanding the depositor base and reducing its reliance on large depositors, while particularly focusing on raising deposits from households. Additionally, an emphasis is placed on maintaining a high level of liquidity, as reflected in the scope of available liquid assets, and in small flow gaps between the repayment of assets to the liabilities. The characteristics of the credit and the depositors, early repayment rates in the various linkage segments and the cycles of short term deposits, have a significant impact on the estimated exposure to this risk.

For details regarding public deposits, see Note 19 to the financial statements.

Minimum liquidity ratio

The Bank evaluates its liquidity position on a daily basis, using the minimum liquidity ratio model, which is, as stated above, the ratio between the liquidity cushion and the potential net outgoing flow in an extreme scenario. For the purpose of implementing the model, the Bank has collected, and continues to collect, data regarding the rate of early repayments, regarding the timing thereof, and regarding the turnover rate of deposits and savings. The minimum liquidity ratio is evaluated according to four scenarios: an ordinary business scenario, a specific "stress" scenario for the Bank, a systemic "stress" scenario and a combined scenario including both stress specific to the Bank and systemic stress. The various scenarios are differentiated from one another primarily by the refinancing rate of deposits, and by the ability to realize liquid assets. The results of the minimum liquidity ratio differ from the results of the liquidity coverage ratio, primarily due to assumptions regarding the sum of deposits from private customer which are significantly more conservative than the assumptions which are required under Proper Banking Management Directive 221, regarding the liquidity coverage ratio. The minimum liquidity ratio, according to the aforementioned scenarios, was 150% as of December 31, 2016.

Liquidity coverage ratio (LCR)

On September 28, 2014, as part of its preparations for the implementation of Basel III, the Banking Supervision Department published Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio (LCR).

The liquidity coverage ratio includes two components:

Value of high quality liquid assets (HQLA) in extreme circumstances (numerator)

Total net outgoing cash flows during the coming 30 calendar days (denominator)

According to the directive, except in case of financial stress, the ratio's value will not fall below 100%. In other words, the inventory of high quality liquid assets must equal, at a minimum, the total net outgoing cash flows on a routine basis.

A banking corporation is required to fulfill the aforementioned ratio beginning on January 1, 2017; however, banking corporations which fulfill the requirement regarding the aforementioned ratio as of the application date of the directive, April 1, 2015, may not fall below the threshold which was determined in the directive.

The Bank fulfills the liquidity ratio specified in the directive.

The liquidity coverage ratio as of December 31, 2016 amounts to 458%, as compared with 403% last year, in terms of simple averages of daily observations during the reported quarter.

In the Bank's assessment, in consideration of the deposit refinancing rates in recent years, the exposure to the aforementioned risk is not high, inter alia, because the Bank diversifies its financing sources, ensures to expand the depositor base and to reduce its reliance on large depositors. The Bank also ensures to maintain a sufficient liquidity cushion, as reflected in the fact that the ratio of liquid assets is higher than the required ratio.

As of the reporting date, the balance of total public deposits of the three largest depositor groups amounts to approximately NIS 528 million (which constitute approximately 5% of the total deposits in the Bank), as compared with NIS 543 million as of December 31, 2015.

For additional details, see the report regarding risks on the Bank's website.

Net stable funding ratio (NSFR)

The Bank also monitors its long term liquidity using the net stable funding ratio (NSFR) model, as specified in Basel III, and in accordance with Proper Banking Management Directive 342. The net stable funding ratio as of December 31, 2016 was 112%.

Short-long ratio

The Bank's balance sheet structure includes relatively long uses. Approximately 70% of the credit portfolio is housing credit characterized by long periods to maturity. On the other hand, the period to maturity of the sources is shorter. As of the reporting date, the gap in duration between the financial assets and liabilities according to the amortization schedules is approximately 3 years. However, this gap does not take into account behavioral components, such as early repayments and effective duration of sources and uses, which significantly reduce the risk.

Additionally, the Bank's policy places an emphasis on raising stable sources from households. Approximately 77% of the Bank's public deposits are from private individuals, and approximately 77% of public deposits are in the amount of up to NIS 5 million.

The Bank manages the duration gap between its assets and liabilities on an ongoing basis, using designated models to quantify the scope of the exposure. For the purpose of short / long risk management, the Bank's Board of Directors has determined several restrictions, including:

Maximum limit for the required annual raising scopes during the next five years, a restriction on the maximum loss in a scenario involving an increase in the price of deposits, a minimum limit with respect to deposits from households out of total deposits, etc.

Financial risk

The Bank has established for itself a long term policy of expanding the raising of sources, while increasing the weight of the sources from households out of total public deposits, and maintaining the ability to raise sources from institutional customers. The raising of long term deposits was performed with reference to the scope of performance of long term new credit. Additionally, the Bank, through the subsidiary Jerusalem Finance & Issuance Ltd., raises deposits according to the Bank's raising needs and deferred liability notes, in accordance with its capital needs.

The Bank strives to achieve the targets through variety in the mix of products and adjusting it to the needs of customers and to the changing market conditions. The Bank also conducts sales campaigns for depositing customers, through advertising in various media and direct mailing to existing and potential customers. The Bank also offers banking services in a closed system which allows the raising of funds from customers of all banks, as specified below.

The Bank is able to receive a loan overnight from the Bank of Israel against a pledge on securities, in case of emergency. The Bank also has the option, through swap transactions, to convert liquidity from foreign currency to Israeli Shekels, and vice versa.

The Bank routinely evaluates its ability to rely on each active source, and acts in accordance with such evaluations. An in-depth evaluation of the availability of financing sources is conducted once per year, within the framework of the preparation for the discussion regarding the risk management policy.

Presented below are details regarding pledges on cash and securities:

	December 31, 2016		
	Book value	**Pledged as collateral**	**Non-pledged**
	NIS millions		
Cash and deposits in banks	2,522.0	19.1	2,502.9
Securities	1,434.5	313.4	1,121.1

	December 31, 2015		
	Book value	**Pledged as collateral**	**Non-pledged**
	NIS millions		
Cash and deposits in banks	2,071.9	30.2	2,041.7
Securities	1,799.5	406.6	1,372.9

For details regarding the pledges, see Note 27 to the financial statements.

For additional details, see the report regarding risks on the Bank's website.

3.4 Operational risk

Description of the risk, quantitative indicators regarding exposure to the risk, and a review of methods used to manage the risk

Operational risk is defined as the risk of loss due to the inadequacy or failure of internal processes, people, systems, or external events, The definition of operational risk includes legal risks, but does not include strategic risks or reputation risks. The operational risks are embodied in all of the various banking activities, and are inherent in all of the Bank's work processes. The Bank is engaged in a variety of financial activities, and is exposed to operational risks, including, inter alia, embezzlement and fraud risks, information technology risks, business continuity risks, and information security risks. Operational risk creates implications on other risks, such as credit risks and market risks.

For an extensive description of the system regarding the management and control of operational risk, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Operational risk factors

The material operational risks faced by the Bank are risks faced by any financial entity. In recent years, external risks have increased, primarily in terms of cyber risks, and the Bank is investing a great deal of resources in protecting the Bank's resources from hostile entities, and is operating in accordance with the guidelines of the Bank of Israel, while enlisting the assistance of external consultants. Presented below are the main risk factors:

- Cyber and information security risks.
- Business continuity and disaster recovery.
- Systems failure.
- Embezzlement and fraud.

Mitigation of operational risk

The Bank maintains a comprehensive framework of processes and methods intended to reduce the exposure to losses which are due to operational risks. These preparations include, inter alia, the following measures:

- All actions performed in the branches and by management are set forth in policies which are based on the instructions of the Bank of Israel, the Bank's cumulative experience, and with the assistance of external consultants / experts. This is intended to improve and to increase the effectiveness of work methods and internal control methods, and to prevent human errors.
- Reducing the operational exposure, through the implementation of ongoing control measures and a demand for the implementation of double controls over every process which involves significant operational risk.
- Implementation of system-wide controls over various operating segments, in accordance with the risk associated with the process, with an emphasis on processes regarding which there is no double control over the process.
- Performance of operational risk surveys and embezzlement and fraud surveys, and formulation of plans to mitigate the risks which were identified in the survey.
- Implementation of an organizational culture regarding the management of operational risks, and increasing awareness of such risk among employees.
- Implementation of an approval process prior to the activation of each new product / operation / process - which requires the performance of a comprehensive risk survey, the creation of an

amortization program which is adjusted to the risk level, and approval of each significant new product in the risk management forum managed by the CEO and in the meetings of the Board's Risk Management Committee.

- Collection of information regarding loss or near loss events, and learning of lessons - the Bank collects data regarding operational failure events which occurred and which caused actual operational damage, or which could have caused operational damage. In significant or company-wide events, an investigation and lesson learning process is implemented by all involved entities. The Bank's management and Board of Directors receive reports regarding operational events in which losses were incurred, and regarding events which involved the potential for loss.
- The map of operational risks, risk mitigation plans and reporting regarding loss and near loss events are managed in a designated system for the management of operational risks.
- The appointment of division-based referents for the management of operational risks - with the aim of improving and implementing the management of operational risks in all of the Bank's units.

Once per quarter, the management and the Board of Directors receive a risk report regarding operational risks, which includes a report regarding the failure events which occurred during the reporting period, the existing risk areas, including IT, cyber, information security and business continuity risks, and the status of progress on the implementation of the risk mitigation plan.

In order to reduce the operational risks to which the Bank is exposed, the Bank acquires, each year, professional liability insurance and property insurance. Beginning in 2015, the Bank also acquires cyber insurance, which provides extended insurance coverage for damages caused due to computer crimes, and for IT failures.

IT risks, cyber protection and information security

Information technology constitutes a central component in the Bank's proper operation and management. Information technology risks are due to the current operations of the Bank's information systems, company-wide information technology processes and the development of new activities (projects and systems). Information technology risks also include cyber and information security risks and banking risks associated with communication, which could affect business and/or operational processes in the Bank. The Resources Division Manager is responsible for managing information technology risks in the Bank.

Cyber protection and information security:

The Bank is exposed, as are the other banks in the banking system in Israel, to cyber attack and cybernetic incidents. This constitutes one of the material non-financial risks to which the banks are exposed, due to the possibility of a cyber attack on the Bank's IT systems and the Bank's website, which may cause harm to the ability to continue providing service to cause delays in the provision of service, theft of customer data and harm to the Bank's reputation.

The Bank expanded, in the last two years, the cyber protection and information security unit, and is continuously improving the area of information security, include preparing for the application of Proper Banking Management Directive 361 of the Bank of Israel regarding cyber protection. The information security staff members are separate from the infrastructure staff members. The Bank works continuously to mitigate cyber risks, and invests a great deal of resources in the cyber protection and information security field, from the implementation of information security products, the application of controls, the performance of risk surveys, security and penetration surveys, and more. Each new product or change to a process / activity / existing product undergoes comprehensive information security tests.

In the last two years, new tools have been purchased and implemented in the Bank to protect against cybernetic attacks, and means of protection are being implemented to protect against the leakage of information and to protect customer data. The Bank also has two data storage copies and a backup IT site, which are intended to allow the Bank to ensure business continuity and resumption of functional activities in a short time. The Bank also implements insurance arrangements against possible damages with respect to cybernetic incidents. For details regarding a cyber event which occurred in 2016, see Note 35 to the financial statements.

Information technology risks:

The Bank is continuously working to develop and improve its information systems, and methodically manages the information technology risks. There is in place a set of policies and work methodologies which constitute a good infrastructure for the monitoring and control of information technology risks. The Bank maintains a map of information technology risks and a multi-annual work plan involving refreshment of the surveys for the identification and assessment of IT risks. In all main projects under development, an orderly process of risk management is implemented in accordance with a standard methodology. Project risk meetings are held for each project once per month, in collaboration with information systems staff, business entities and the operational risks administration. Orderly monitoring is implemented regarding all information technology risks which have been identified. The Bank maintains a secondary IT site on a routine basis, which serves as a backup site, in case of a failure in the Bank's main IT site.

Monitoring and control - monitoring and control over the systems' availability constitutes an important component of the identification of malfunctions before they occur, and the performance of actions to prevent the failure. The Bank has a monitoring and control system which allows the rapid location and identification of a malfunction before or upon its occurrence, and the ability to perform rapid diagnostics in order to understand the nature of the malfunction and the correction thereof, in a short time.

Metrics regarding the exposure to operational risk

The Bank has defined the risk appetite (tolerance) for operational risks. The definition includes a restriction on a rate of risk which is higher than total risks (in other words, the number of high risks which the Bank is able to contain), a restriction on annual financial loss with respect to operational risks, a restriction on damages with respect to an extreme operational risks scenario. On the specific level, a restriction was defined with respect to public complaints, as well as a restriction on the availability of systems which impact customer service.

Compliance with these restrictions is monitored on a continuous basis, and the Bank complies with them.

For additional details, see the report regarding risks on the Bank's website.

3.5 Other risks

Business continuity

In order to maintain resiliency and business continuity of the Bank's activities following a disaster or malfunction event, and in accordance with Directive 355 issued by the Bank of Israel, on the subject of the management of business continuity, the Bank maintains a continuous plan for emergency preparation and business continuity, including aspects of exposure and risk management. The Bank's IT system is based on two IT sites - the main site, located in the Bank's headquarters in Airport City, and a backup site in through hosting in the Netanya IBM building.

The subject of business continuity is managed under the planning, monitoring and OCIO unit in the resources division, and in accordance with Proper Banking Management Directive 355, on the subject of business continuity.

Legal risks

Legal risk is defined as any risk which is due to the potential for loss as a result of a breach of laws, regulations, or regulatory directives, or due to the Bank's rights or obligations which have not been established, as required; this risk also applies in cases of contracts which cannot be enforced, legal claims, or erroneous judgment, which may impose difficulties on exercising the Bank's rights, or may injure such rights.

Legal risk may arise due to a defective or incorrect legal basis, which the Bank has relied upon in providing service to customers, receiving service from suppliers and/or receiving collateral from customers or third parties, such as engagements which are backed by adequate agreements, collateral which cannot be realized due to a defect in its creation or registration, or because the collateral has been stolen or has lost its value, etc.

Additionally, legal risk may be created for the Bank as a result of external factors which are not dependent upon the Bank, such as changes in the provisions of the law or various regulatory directives (directives issued by the Commissioner of Banks, directives issued by the Israel Securities Authority, the Israel Prohibition of Money Laundering and Financing of Terrorism Authority, etc.), or new rulings by the courts which determine that the Bank is required to act, with respect to a certain subject, different from the way in which it effectively acted before the issuance of that ruling.

Legal risks comprise a part of the entire array of operational risks to which the Bank is exposed. Sarit Weisstuch, Adv., VP and Legal Advisor, is responsible for the management of the Bank's legal risks, and for this purpose, enlists the assistance of the employees of the Bank's legal department. Legal and regulatory risk is managed in the Bank in an orderly and structured manner, as set forth in written policies and procedures, with the aim of reducing to the lowest possible minimum the realization of such risks, and reducing the damages which are caused to the Bank in the event that such risks do indeed materialize.

According to the Bank's policies and procedures, any legal issue which arises within the framework of the management of the Bank's business operations is transferred to the legal department for handling (each in accordance with its own area of responsibility). Any claims, legal proceedings or threats to file lawsuits which are received by any of the Bank's employees are transferred to the legal department for handling; any legal question referred by a customer to an employee of the Bank is referred to the legal department for response or for assistance. As of December 31, 2016, the Bank has no significant exposure with respect to claims which were filed against it, whose chances are not low, except as stated in section 6 of Note 26 to the financial statements, regarding a claim which was approved as a class action against Clal Batucha.

For additional details regarding the materialization of the legal risks, see Note 26 to the financial statements.

Reputation risk

Reputation risk is the risk of loss due to harm to the Bank's reputation or harm to an external assessment of its banking capabilities or financial stability. This risk may be caused as a result of factors within the Bank, such as operational failure of the Bank's systems, failures to prevent events associated with money laundering, embezzlement and fraud of employees, etc., or as a result of factors which are systems to the Bank, such as a national or global economic crisis, defaults in other banks, class action claims, etc.

Reputation risk is characterized by two main risk factors: first priority risk and second priority risk. First priority risk is pure reputation risk, due to the realization of a risk which is managed in the Bank, and which reduces the Bank's profits. For example, credit risk, which is a first priority risk, may cause losses, due to the actual realization of a scenario in which certain borrowers do not repay their debts to the Bank. Second priority risk is risk due to the realization of other risks. For example, the realization of an operational risk involving a large scale theft may result in harm to the Bank's reputation (regardless of the loss from the theft itself), which is reflected in loss of the Bank's profits.

Risk factors also include several additional risks, including operational risk, compliance risk and strategic risk.

Management of reputation risk is divided into two parts: prevention of the risk, and management of the risk after the event has occurred, or in case of indications that an event is about to occur.

On the level of risk prevention, reputation risk occupies a central place in the Bank's activities. The risk appetite, policies, restrictions and operating segments are clearly directed towards reducing the exposure to reputation risk. The Bank monitors reputation risk by tracking central issues which reflect its reputation, such as publications in written and electronic media, public complaints, customer claims, and others.

The Bank's policy risk management policy defines three types of events which may constitute risk events:

1. Expected events which can be prepared for in advance.

2. "Ongoing" events which develop gradually, and may develop into a reputation risk event.

3. Unexpected events which occur suddenly.

The handling of each risk event is managed and concentrated by the Bank's spokesperson office, in collaboration with the CEO Strategy and Marketing Division Manager, where, with respect to each of the aforementioned event types, methods of operation, and the identity of the additional relevant entities who will work with them, were defined.

Compliance risks

Compliance risk is the risk that a corporation will be subject to the imposition of legal or regulatory sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply

with all legislative provisions and regulations which apply to the Bank.

The broad scope of the compliance officer's responsibility is in effect beginning on January 1, 2016, in accordance with the amendment to the Proper Banking Management Directive on this subject (Directive No. 308), which significantly changed the approach to compliance risk management in the Bank, and created complex managerial, monitoring and control challenges, from the level of management and Board of Directors, to the level of the product managers and business entities, while imposing a monitoring and supervision obligation on management and Board of Directors. In recent years, banks around the world have suffered significant sanctions with respect to non-compliance with various regulatory directives, and management of compliance risk has become a more complex issue than in the past. The Bank has adjusted its practices in accordance with the provisions of the amendment to the directive.

FATCA risk is manged within the framework of internal enforcement.

In accordance with the FATCA regulations, the Bank is required to appoint an RO (responsible officer) who will be responsible for the implementation of the regulations in the Bank, for serving as the contact person vis-à-vis the tax authorities, and for issuing various declarations on behalf of the Bank. The Bank's Board of Directors has determined that the Bank's CRO will also serve as the RO for the purpose of FATCA.

Reports by financial institutions in Israel to the Tax Authority were issued on September 20, 2016, with respect to the end of the year balances in reportable accounts for the years 2014 and 2015. The Bank submitted the information to the tax authorities in Israel in accordance with the provisions of the law and the regulations.

In March 2015, the Commissioner of Banks issued a circular on the subject of "management of risks due to cross border activities of customers". This circular includes obligations imposed on the banking corporation on all matters pertaining to the tax liability of its customers. The responsibility for the management of cross border risks applies to the Chief Risk Officer. As part of the implementation of the directive, a cross border risk management forum has been created in the Bank, led by the Chief Risk Officer; a cross border risk management policy has been established; rules for the identification of high risk customers have been established; and a work plan has been created.

following the publication of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 5771-2011, an administrative enforcement mechanism was adopted in Bank of Jerusalem, which is based on securities laws, and which was also adopted in other areas, including the capital market (insurance), labor laws, antitrust, protection of privacy, environmental risks and employees' use of social networks.

In accordance with the principles outlined by the Israel Securities Authority, the Bank formulated a comprehensive internal enforcement program, which is intended to limit the Bank's exposure to the risk that the Bank will be subject to financial or other sanctions, due to non-compliance by the Bank and/or by its employees to the provisions of laws which apply to it.

The management of compliance risks in the Bank is performed by the compliance officer, who is directly subordinate to the Risk Division Manager, who is a member of bank management (beginning on February 9, 2017, the compliance officer was made subordinate to the Manager of the Legal Consulting, Compliance and Enforcement Department , who is a member of bank management).

Risks involving money laundering and terrorism financing

Risk associated with the prohibition on money laundering and terrorism financing (hereinafter: "Money Laundering") involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the occurrence of a breach of provisions of the laws regarding the prohibition on money laundering and terrorism financing may result in the realization of reputation risk. Within the framework of its activities, the Bank is exposed to risks involving money laundering and terrorism financing. This exposure is focused both on the account opening stage and on the account management stage. The Bank may be exposed to entities who intend to "abuse" it in order to launder funds originating from crimes defined as "predicate offenses" in the Prohibition on Money Laundering Law, and in order to finance terrorism using such funds.

The Bank is subject to various directives as part of the prevention against money laundering and terrorism financing, including, inter alia, the Prohibition on Money Laundering Law, The Prohibition on terrorism financing Law, the Prohibition on terrorism financing Regulations, Proper Banking Management Directive 411, various circulars, and others.

Amendment No. 14 to the Prohibition on Money Laundering Law - On April 7, 2016, Amendment No. 14 to the Prohibition on Money Laundering Law was published, which determined that severe tax offenses will be recognized as predicate offenses pursuant to the Prohibition on Money Laundering Law, and will be subject to the sanctions specified in that law, including more severe punishment (up to ten years in prison), and the possibility of forfeiture of property. It was further determined in the amendment to the law that the investigative authorities of the Tax Authority will be expanded, and that information may be submitted directly from the Israel Prohibition of Money Laundering and Financing of Terrorism Authority to the Tax Authority. The Bank is operating in accordance with the provisions of the amendment.

Risk management in the Bank is performed by the Bank's compliance officer, Board of Directors and management have established policies and procedures on the subject of the prohibition on money laundering and terrorism financing. The directives issued by the compliance officer are in accordance with and subject to the provisions of the law. His responsibilities include, inter alia, implementing controls over reports, in accordance with the type and size of the activity, and reporting them to the Prohibition on Money Laundering and terrorism financing Authority, submitting reports regarding irregular activities to the Prohibition on Money Laundering and terrorism financing Authority, implementing various controls over activities in different accounts, in accordance with their profile, providing routine advice to branches in this area, and performance of training sessions adapted to the responsibilities of the various employees in the Bank, in accordance with their positions.

For the purpose of implementing the law and strictly complying with its provisions, the Bank has appointed compliance supervisors who also serve as supervisors regarding the prohibition on money laundering in its branches and in headquarters (hereinafter: the "Trustee"), who serve as the first professional point of contact for employees of the branch or unit in which they are employed, with respect to the prevention of money laundering and terrorism financing, and serve as an entity.

Impact of risk factors on the business operations of the banking corporation

The Bank is required, as are all banking corporations, to include a table of risk factors in each of the following categories, and to estimate the impact of each risk factor on its business operations. As part of these preparations, it is necessary to estimate both the potential exposure or damage as a result of the occurrence of a certain event, and the probability that the aforementioned event will indeed occur. Additionally, the adequacy of control regarding the risk environment, as well as the other actions which the Bank performs for the purpose of manging the risk, have an impact on the level of exposure to the risk. Therefore, the risk assessment specified in the following table constitutes a subjective assessment by the Bank regarding the impact of the residual risk on its business operations.

The Bank performs risk assessment, both qualitative and quantitative, within the framework of the ICAAP process. As part of the above, risks are quantified and capital allocations are established (for both Tier 1 and Tier 2) for the various risks. The capital allocations reflect potential loss upon the occurrence of an extreme scenario, and thereby allow qualitative risk assessment which is based on a quantitative estimate.

Presented below is the impact of risk factors on the business operations of the banking corporation

	Risk factor	Risk impact
1	**Total impact of credit risks** Risk due to the possibility that the borrower will not fulfill its contractual liabilities to the Bank. Deterioration in the stability of various borrowers and/or in their ability to repay the credit may have an adverse effect on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the Bank's credit policy and the exposure restrictions with respect to different types of borrowers in the various operating segments.	Medium
1.1	**Risk with respect to the quality of borrowers and securities** Risk due to a deterioration in the quality of borrowers and/or in the value of securities provided as collateral for the credit to the Bank, which may have an adverse effect on the chances of collecting the credit, and therefore also on the value of the Bank's assets and profitability. The exposure to this risk is managed, inter alia, by implementing a clear definition of the credit policy, ensuring strict implementation of the underwriting process, and restricting activities to specific types of borrowers in the various operating segments and products.	Medium

	Risk factor	Risk impact
1.2	**Risk with respect to branch concentration** Risk due to the high scope of credit given to borrowers who belong to a certain branch of the economy, with respect to the credit portfolio. Deterioration in the results of the business activities in that sector in the economy could result in harm to the repayment ability and/or to the value of the securities which were given by some of the borrowers in this sector, and as a result, could have an adverse effect on the value of the Bank's assets and profitability. This exposure to this risk is managed, inter alia, in accordance with restrictions determined by the Bank of Israel on this matter, and in accordance with restrictions determined by the Board of Directors, regarding the maximum scope of the exposure to the different sectors of the economy. The Bank does not deviate from the aforementioned restrictions.	Medium
1.3	**Risk due to concentration of borrowers / group of borrowers** Risk due to a deterioration in the condition of a large borrower or large group of borrowers (relative to the credit portfolio) which may result in an adverse effect on the chances of collecting the credit, and on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the restrictions of the Bank of Israel and of the Board of Directors on the maximum scope of exposure to a borrower and to a group of borrowers. Compliance with these restrictions is also continuously monitored. The Bank does not deviate from the aforementioned restrictions.	Low
2	**Total impact of market risks** Risk due to changes of prices or rates in financial markets or of other economic parameters, which affect the value of the Bank's assets or liabilities, and which could result in erosion of its capital, or could reduce its profitability. The exposure to this risk is managed separately with respect to each risk, as specified below, and in concentrated form, using the VaR model.	Low
2.1	**Interest rate risk** Risk due to the difference between the sensitivity of the assets' value to unexpected changes in interest rates, and the same sensitivity of liabilities - changes which may result in the erosion of the Bank's capital. Due to the exposure to interest in the various linkage bases, a future decline in financing income may occur (throughout the lifetime of the assets or liabilities). The management of the exposure to this risk is implemented, inter alia, in accordance with the estimates regarding market variables, and subject to the restrictions on sensitivity from the Bank's net discounted financial cash flow to a scenario involving a change in the NIS interest curves and the CPI-linked interest rate. The exposure restrictions are monitored on a routine basis.	Low

	Risk factor	Risk impact
2.2	**Inflation risk** Risk due to changes in the inflation rate, which may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the CPI-linked segment. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The exposure restrictions are monitored on a routine basis.	Low
2.3	**Exchange rate risk** Risk which is due to changes in the inflation rate may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the foreign currency segments and the foreign currency linked segments. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. The exposure restrictions are monitored on a routine basis.	Low
2.4	**Stock and bonds price risk** Risk due to the loss of value of stocks and bonds held by the Bank. The Bank has a securities portfolio which is mostly comprised of government bonds, and to a lesser degree, of corporate bonds. The Bank's policy does not allow significant activity in stocks (whether for trading purposes or for investment purposes). The Bank's rate of holding (including indirect holding) in stocks and stock indices is negligible. Management of the exposure to this risk is implemented, inter alia, through restrictions on the amounts, features, marketability, and durations of the investments, as well as the amount of loss expected from the investments. The restrictions are maintained using both the VaR model and using extreme scenarios.	Low

	Risk factor	Risk impact
3	**Liquidity risk** Risk which is due to the uncertainty regarding the availability of sources and the ability to raise them (without having an exceptional impact on prices) and regarding the ability to realize assets within a defined period of time, and at a reasonable price. In situations involving irregular supply and demand in financial markets, unplanned dependency may be created on the raising of sources, which could affect financing income. The exposure to this risk is managed, inter alia, through the expansion of the base of depositors, and the reduction of reliance on large depositors, extension of the duration of the sources and maintaining high level of liquidity. The Bank has a control system which is based on an internal model that includes the evaluation of several scenarios. The Bank also evaluates, over time, the behavior of its customers, which could have an effect on the exposure to this risk.	Low
4	**Operational risk** Risk of loss due to inadequacy or failure of internal processes, people, systems, or external events. The exposure to this risk is managed, inter alia, through a survey of operational risks, creation of policies, application of controls and implementation of systems regarding issues which have an impact on risk exposure, such as human resources, information security, processes, etc. The Bank has an orderly approval process prior to the launching of any new product / activity / process, which includes an evaluation of the risks and the application of appropriate controls. The Bank monitors operational loss and near loss events, for the purpose of learning lessons and improving control.	Medium
5	**Information technology risks** Risk which is due to failure in the routine operation of the Bank's information systems, which is comprised of work processes that are performed in the various IT units, or the routine operations of a system, and/or hardware or software infrastructure component, including information security risks and banking communication risks, which could impact business and/or operational processes in the Bank.	Medium
6	**Information security and cyber risks** Risk of harm to a material asset of the Bank, by means of an attack through cyberspace, including exposure of information (leak), availability of information (shutdown) and the reliability and completeness of information (disruption). Management of information security risks in the Bank supports the response to threats and risks, and protection of the Bank's information assets and IT systems.	Medium

	Risk factor	Risk impact
7	**Legal risk** Risks which are due to unexpected events, such as legal claims, including class actions, inability to enforce contracts, or judgments issued by judicial instances against the Bank, which may result in harm to the Bank's profitability. The exposure to this risk is managed, inter alia, through legal controls and an internal and external legal counsel system. Past experience indicates that such events have not exposed the Bank to significant losses.	Low
8	**Regulatory risk** Regulatory risk is a current or future risk applicable to the Bank's income and capital, which could be created due to changes in regulation or legislation, and which could have a significant impact on the Bank's activities and duties. The Bank, as a banking corporation and public company, is subject to many regulatory provisions, as reflected in legislation, secondary legislation, and policies and execution procedures issued by various authorities and supervised entities. The management of the exposure to this risk is implemented, inter alia, by conducting routine monitoring of draft legislation and legislative memoranda, provisions of the law, and drafts and directives issued by the various regulators (the Banking Supervision Department, the Israel Securities Authority, the Prohibition of Money Laundering and Financing of Terrorism Authority, the Information and Technology Authority at the Ministry of Justice, etc.). Additionally, monitoring is performed regarding new rulings issued by the various judicial instances in Israel. In order to ensure the completeness of the provisions with respect to which monitoring is performed, the legal department is responsible for reviewing the current professional publications issued by several leading law firms in Israel, on subjects pertaining to banking, capital markets, real estate, labor laws, etc.	Low
9	**Reputation risk** Risk which is due to harm to the Bank's reputation as a stable and reliable financial institution due to publications, whether true or false, from the perspective of its customers, investors, and various regulatory authorities. Harm to reputation may result in deviation of customers' activities to other providers of financial services, causing a deterioration in the Bank's operations and profitability. Management of this exposure is divided into two parts: prevention of the risk, and management of the risk after an event has occurred, or in case of indications regarding the occurrence of an event.	Medium

	Risk factor	Risk impact
10	**Strategy risk** Strategy risk is due to wrong business decisions, inadequate implementation of decisions, or lack of response to sectoral, economic or technological changes. The risk is also due to, inter alia, entry into new segments, expansion of existing services and increasing investments in infrastructure with the aim of realizing the business strategy. This risk is a function of the correspondence between the Bank's strategic goals, the business plans which were developed to achieve such goals, the resources which were allocated towards the fulfillment of its goals, and the quality of implementation. The exposure to this risk is managed, inter alia, by creating an orderly strategic process, receiving external advice from experts in the field, and additional actions intended to mitigate the risk.	Medium
11	**Compliance risk** Compliance risk is due to the Bank's failure to comply with consumer directives, provisions of the law, directives issued by the Commissioner of Banks, and other relevant regulatory directives. The duties which apply to the Bank are cross-organizational and pertain to a wide variety of activities, processes and products.	Medium
12	**Risk associated with the prohibition on money laundering and terrorism financing** Risk associated with the prohibition on money laundering and terrorism financing involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the realization of an offense in breach of the provisions of the law regarding the prohibition on money laundering and terrorism financing may cause the realization of reputation risk. Amendment No. 14 to the Prohibition on Money Laundering Law prescribes that severe tax offenses will be recognized as predicate offenses in accordance with the Prohibition on Money Laundering Law, and will be subject to the sanctions prescribed in that law, including stricter punishment (up to ten years in prison) and the possibility of seizing property.	Medium

	Risk factor	Risk impact
13	**Administrative enforcement risk** Administrative enforcement risk is the risk of the imposition of significant financial sanctions and/or sanctions which restrict engagement on any of the Bank's employees due to non-compliance with securities laws. The Bank is working to mitigate the risk by appointing the Risk Division Manager as the supervisor of internal enforcement in the Bank and in its subsidiaries, creating an internal enforcement department in the risk division, formulating an internal enforcement program in accordance with the principles which were determined by the Israel Securities Authority, conducting a survey intended to identify gaps in the area, and closing such gaps, performing training and implementation activities, and routinely handling events which could be considered breaches, including appropriate learning of lessons. The Bank has a high enforcement committee and a disciplinary committee.	Low

For details regarding the detailed qualitative and quantitative information with respect to credit risk, which is provided in accordance with the disclosure requirements of Pillar 3, and for additional information regarding risks, see the risks report on the Bank's website.

Chapter 4 - Accounting Policy and Critical Accounting Estimates, Controls and Procedures

4.1 Accounting policy regarding critical issues

Provision for credit losses

The Bank determines the provisions for credit losses in pledged loans for residential apartments in accordance with the depth of arrears formula, as determined in Proper Banking Management Directive 314, issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Banking Supervision Department, a collective provision for credit losses is calculated with respect to the balance of the housing loans, which will not fall below 0.35% of the balance of the housing loans for which a provision is not maintained, in accordance with the extent of the arrears or specific provision.

Regarding other retail credit, and also regarding business credit, the Bank determines its provisions in accordance with the circular issued by the Commissioner of Banks on the subject of "measurement and disclosure of impaired debt, credit risk and provision for credit losses", which was published on December 31, 2007.

For additional details regarding the accounting policy, see Note 1B6, Note 13 and Note 30 to the financial statements.

Deferred taxes

Deferred taxes are calculated with respect to the temporary differences between the value of assets and liabilities in the financial statements and the amounts which will be taken into account for tax purposes. The calculation of deferred taxes was performed according to the tax rates which are expected to apply when these taxes are charged to profit and loss, as known proximate to the approval date of the financial statements. Deferred taxes are calculated according to the tax rates which are expected to apply upon usage of the reserve or realization of the tax benefit, based on the tax laws which were in effect on the balance sheet date.

Upon the recording of deferred taxes receivable, the Bank performs estimates and assessments regarding the possibility of their future realization.

For additional details, see Note 8 to the financial statements.

Derivative instruments

In accordance with the directives issued by the Commissioner of Banks, the derivative instruments in the Bank are presented in the balance sheet at fair value. The fair value of derivatives was determined based on quoted market prices in active markets, or on the estimated fair value which was determined according to the prices of similar assets, or similar liabilities (the mark to model method). The estimation methods include use of various parameters, including interest curves, currency rates and standard deviations. The estimation includes taking into account assumptions regarding various factors, such as the credit risks and liquidity of the counterparty to the transaction. There are no cases regarding which the revaluation of the derivatives and fair value was not determined based on a model, but rather based on price quotes which are received from third parties.

For additional details, see Note 1B14 and Note 28 to the financial statements.

Fair value measurement of financial instruments

On December 31, 2009, the Commissioner of Banks published a circular which applies to the banking system FAS 157 (ASC 820-10), On the subject of fair value measurement. As part of the application of the standard, the Bank makes use of valuation techniques which maximize the use of relevant observable inputs, and minimizes the use of unobservable inputs. Fair value measurement is based on the assumption that the transaction is performed in the principal market of the asset or liability, or in the absence of a principal market, in the most effective market.

The Bank classifies fair value measurements using the fair value hierarchy, which reflects the significance of the data which were used to perform the measurements.

For additional details, see Note 1B15 and Note 33 to the financial statements.

Other than temporary impairment of securities

The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, qualitative and quantitative indicators are evaluated. Additionally, in case of the cumulative fulfillment of the following two situations, the Bank recognizes other than temporary impairment:

- Decrease of 40% in the value of the security relative to amortized cost.
- Decrease for a continuous period of nine months.

If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

For additional details regarding the accounting policy, see Note 1B4 to the financial statements.

Contingent liabilities

The Bank is party to legal proceedings which were initiated against it by the Bank's customers, former customers and various third parties which consider themselves harmed or injured by the Bank's activities. For the purpose of risk assessment in legal proceedings, bank management relies on the opinion of the Bank's internal lawyers, or on the opinion of external legal advisors, which are evaluated by the Bank's internal lawyers. These assessments are based on the legal advisors' best judgment, in consideration of the stage of the proceedings, and on the legal experience which they have accumulated on various issues in Israel.

Risk assessment in class actions involves more difficulty, due to the limited accumulated legal experience regarding the results of such claims in Israel. Additionally, there are class actions whose chances cannot be estimated, due to their current stage.

It should be taken into account that the results of proceedings may differ from the assessment which was determined regarding a claim, due to the fact that, in the legal sector, it is not possible reach assessments with certainty.

For additional details regarding contingent liabilities, see Note 26 to the financial statements.

Reserves to cover employee rights

The discount rate with respect to employee benefits is calculated based on the yields of government bonds in Israel, plus the average margin of corporate bonds with a rating of AA (international) or higher as of the reporting date. Due to practical considerations, the margin was established according to the difference between the yield to maturity rates, by repayment periods, on corporate bonds with a rating of AA or higher in the United States, and yield to maturity rates for those repayment periods, on US government bonds, as of the reporting date.

The impact of the implementation of the directives issued by the Commissioner on the Bank of Jerusalem are immaterial.

For additional details, see Note 1B16 and Note 23 to the financial statements.

4.2 Critical accounting estimates

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and in accordance with directives issued by the Commissioner of Banks, requires management to use estimates and assessments which affect the reported amounts of assets, liabilities, income and expenses. The actual results of these estimates may differ from the estimates and/or approximations. Estimates and approximations are generally based on economic forecasts, estimates regarding the various markets, and past experience, and involve the application of judgment, which management believes is reasonable at the time of the signing of the financial statements.

4.3 Controls and policies

Evaluation of controls and policies with respect to disclosure in the financial statements

Bank management, in collaboration with the CEO and the chief accountant of the banking corporation, evaluated, as of the end of the period covered in this report, the effectiveness of controls and policies regarding disclosure in the banking corporation. Based on this evaluation, the Bank's CEO and chief accountant concluded that, as of the end of this period, the controls and policies regarding disclosure in the Bank are effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the annual report, in accordance with the public reporting directives issued by the Commissioner of Banks, and on the date specified in those directives.

Internal Control over Financial Reporting

On December 5, 2005, the Commissioner of Banks published a circular specifying provisions for the implementation of the requirements of sections 302 and 404 of the SOX Act. In Section 404, the SEC and the Public Company Accounting Oversight Board (PCAOB) specified provisions regarding the responsibility of management for internal control over financial reporting.

The Commissioner's directives in the circular determined the following:

- Banking corporations must apply the requirements of sections 302 and 404, and the directives which were published by virtue thereof by the SEC.
- Adequate internal control requires the maintenance of a monitoring system in accordance with a defined and recognized framework, and the COSO 1992 model meets the requirements, and is fit to serve for the purpose of the assessment of internal control.
- The application of the requirements specified in the Directive requires upgrading and/or creating an infrastructure system of internal controls in the Bank, and the process of developing such systems requires the Bank to prepare and to establish stages and interim goals, until they have been fully implemented.

As part of the application of the directive, the Bank identified, in collaboration with an external accounting firm, accounts and business processes which are associated with financial reporting and due disclosure. These processes included documentation and assessment of risks and controls, while mapping out the risks and internal controls which exist on the level of processes and transactions.

The Bank also concluded an evaluation of the effectiveness of controls, including documentation of the tests regarding the effectiveness of controls and an analysis of existing gaps vs. the internal control model. The Bank is implementing the directive on a routine basis.

Bank management, under the supervision of the Board of Directors, evaluated the effectiveness of the

Bank's internal control over financial reporting as of December 31, 2016, based on criteria which were determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on this evaluation, management believes that as of December 31, 2016, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2016 was audited by the Bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, on page 155 of the annual report, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016.

Chapter 5 - Additional Information

5.1 Ethical code of conduct

The Bank has an ethical code of conduct which was approved by management in 2009, and which is intended to reflect the Bank’s policy regarding the professional ethics of its employees, and to establish the ethical guidelines according to which its employees are expected to act.

The Bank ensures to comply with the law and the directives issued by the various authorities, and these are set forth in its policies. The Bank‘s ethical code of conduct is intended to add a value infrastructure to its policies, in order to ensure a value-based and high-quality working environment for its employees.

The ethical code of conduct is founded upon several principles, including personal honesty, integrity, professionalism, responsibility, and loyalty to the Bank and its customers.

5.2. Donations and social activity

The Bank has donated to social causes for many years, within the framework of the Bank's pre-approved budget, and in accordance with the decisions of the donations committee of bank management, and the committee's work policy. During the reporting period, no donations over NIS 50 thousand were given to any single entity.

The Bank's donations primarily focus on associations which work to provide assistance, support and help to weak population groups which require economic and physical assistance. These associations include associations which work to assist at-risk children and youth, persons requiring economic assistance, persons with disabilities, and more. Some of these associations, in addition to the direct assistance which they give to those population groups, also work to assist those people in leaving their cycles of distress.

In recent years, the employees of the Bank's branches took part in various voluntary activities in the city of their branch. The Bank encourages these activities through assistance and donations.

The Bank also purchases gifts from businesses or associations which employ persons with disabilities or persons in need, and grants them as gifts to the Bank's employees, managers and customers, or donates them to population groups in need.

The Bank’s Board of Directors would like to thank the Bank’s employees and managers for their dedicated work, and for their contribution towards the advancement of the Bank’s business affairs.

Gil Topaz
CEO

Zeev Nahari
Chairman of the Board of Directors

February 28, 2017

Certification

I, Gil Topaz, hereby certify that:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2016 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting (as defined in public reporting regulations regarding the "Report of the Board of Directors and Management"). And:
   A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:
   A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And
   B. Any fraud, whether material or immaterial, which involves management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

Approval date of the financial statements:
February 28, 2017

Gil Topaz
CEO

Certification

I, Alexander Saltzman, hereby certify the following statements:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2016 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting (as defined in public reporting regulations regarding the "Report of the Board of Directors and Management"). And:
   - A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   - B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   - C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   - D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:
   - A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And
   - B. Any fraud, whether material or immaterial, which involves management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

Approval date of the financial statements:
February 28, 2017

Alexander Saltzman
VP, Monetary Division Manager
and Chief Accountant

Financial Statements

Report for 2016

Bank of Jerusalem Ltd. and its Consolidated Companies

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Report of the Board of Directors and Management Regarding Internal Control over Financial Reporting

The Board of Directors and Management of Bank of Jerusalem Ltd. (hereinafter: the "Bank") are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in the public reporting regulations, with respect to the "Board of Directors' Report"). The Bank's system of internal controls was planned with the aim of providing a reasonable measure of assurance, to the Bank's Board of Directors and management, regarding the appropriate preparation and presentation of the financial statements which are published in accordance with generally accepted accounting principles and in accordance with directives and guidelines issued by the Commissioner of Banks. Independently of the quality of their planning, all internal control systems are bound by inherent restrictions. Therefore, even if it has been determined that these systems are effective, they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial reports.

Management, under the supervision of the Board of Directors, implements a comprehensive system of controls, which is intended to ensure that transactions are performed in accordance with the permissions given by management, that the assets are protected, and that the accounting records are reliable. Additionally, management, under the supervision of the Board of Directors, implements measures in order to ensure that the channels of data and communication are effective, and monitor their implementation, including the implementation of internal control procedures.

The Bank's management, under the supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016, based on criteria which were determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992. Based on this evaluation, management believes that as of December 31, 2016, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2016 was audited by the Bank's auditors, Kost Forer Gabbay & Kasierer, as noted in their report, on page 93, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2016.

Alexander Saltzman	**Gil Topaz**	**Zeev Nahari**
VP, Monetary Division Manager and Chief Accountant	CEO	Chairman of the Board of Directors

Building a better working world

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Auditors' report to the shareholders of Bank of Jerusalem Ltd. – pursuant to the reporting to the public directives of the Commissioner of Banks regarding internal controls over financial reporting

We have audited the internal controls over financial reporting of the Bank of Jerusalem Ltd. and its subsidiaries (hereafter collectively - "the Bank") as of December 31, 2016 based on the criteria established in the integrated framework of internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission 1992 (hereafter – "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of internal controls over financial reporting, which is included in the accompanying Directors and Management's report regarding internal controls over financial reporting. Our responsibility is to express an opinion on the Bank's internal controls over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB) with regard to the audit of internal controls over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether internal controls over financial reporting have been effectively maintained in all material respects. Our audit included understating the internal controls over financial reporting, assessing the risk of existence of any material weakness and testing and assessing the design and operating effectiveness of the internal control based on the assessed risk. Our audit has also included the performance of such other procedures, which we considered to be necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Internal control over financial reporting of a bank is a process designed to provide reasonable assurance as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Generally Accepted Accounting Principles in Israel (Israeli GAAP) and the directives and guidelines of the Commissioner of Banks. A bank's internal controls over financial reporting include those policies and procedures which: (1) relate to record keeping which, with reasonable details, accurately and properly reflects transactions and transfers of the Bank's assets (including taking them out of its possession); (2) provide reasonable assurance that transactions are properly recorded so as to allow the preparation of financial statements in accordance with Generally Accepted Accounting Principles in Israel (Israeli GAAP) and directives and guidelines of the Commissioner of Banks and that the Bank's receipt and expensing of funds are made exclusively in line with authorizations of the Bank's Board of Directors and management; and (3) provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or transfer (including taking out from possession) of the Bank's assets, which may have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current assessment of the effectiveness of internal control over financial reporting are subject to the risk that controls may become inadequate due to changes in circumstances, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank has effectively maintained, in all material respects, internal controls over financial reporting as of December 31, 2016 based on criteria established in the integrated framework of internal controls that was issued by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain auditing standards, the application of which to audits of banking corporations was stipulated in directives and guidelines of the Commissioner of Banks, the balance sheets - of the Bank and consolidated - as of December 31, 2016 and 2015 and the statements of income, comprehensive income, changes in equity and cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2016 and our report, dated February 28, 2017, expressed an unqualified opinion on those financial statements and has drawn attention to note 1.F. regarding the restatement of the annual financial statements as of December 31, 2014 and for the year ended on that date in order to retroactively reflect a correction of an error in the classification as of acquisition date of bonds held to maturity due to the sale thereof in accordance with the directives of the Bank of Israel.

Tel Aviv

February 28, 2017

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Building a better
working world

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Annual Financial Statements

We have audited the attached balance sheets of Bank of Jerusalem Ltd. (hereafter - the "Bank") as of December 31, 2016, and 2015, as well as the consolidated balance sheets as of those dates, and the statements of income, comprehensive income, changes in equity and cash flows – of the Bank and consolidated - for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Bank's Board of Directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards, the application of which in the audit of banking corporations was prescribed by the directives and guidelines of the Commissioner of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position - of the Bank and consolidated - as of December 31, 2016 and 2015 and the results of operations, changes in equity and cash flows - of the Bank and consolidated - for each of the three years in the period ended December 31, 2016, in accordance with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the aforementioned financial statements were prepared in accordance with the directives and guidelines of the Commissioner of Banks.

Without qualifying our opinion, we draw attention to 1.F. to the annual financial statements regarding the restatement of the annual financial statements as of December 31, 2014, and for the year then ended, in order to retroactively reflect the correction of an error in the classification as of acquisition date of bonds held to maturity due to the sale thereof in accordance with the directives of the Bank of Israel.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal controls over financial reporting as of December 31, 2016, based on criteria which were established in the integrated framework for internal control, as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated February 28, 2017, includes an unqualified opinion regarding the effectiveness of the Bank's internal controls over financial reporting.

Tel Aviv
February 28, 2017

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Statement of Income

Reported amounts in millions of NIS

		Consolidated			The Bank		
		For the year ended December 31					
	Note	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Interest income	2	**438.3**	406.3	458.4	**438.2**	407.2	459.4
Interest expenses	2	**95.3**	72.2	141.4	**96.2**	74.1	145.7
Interest income, net	2	**343.0**	334.1	317.0	**342.0**	333.1	313.7
Expenses with respect to credit losses	13,30	**30.4**	40.4	18.4	**30.4**	40.4	18.4
Interest income, net, after expenses with respect to credit losses		**312.6**	293.7	298.6	**311.6**	292.7	295.3
Non-interest income							
Non-interest financing income	3	**35.4**	0.9	18.1	**35.4**	0.9	18.1
Fees	4	**120.9**	124.5	118.3	**115.0**	118.6	111.6
Other income	5	**11.5**	17.3	11.5	**11.5**	16.5	11.5
Total non-interest income		**167.8**	142.7	147.9	**161.9**	136.0	141.2
Operating and other expenses							
Payroll and associated expenses	6	**173.4**	166.3	171.2*	**152.8**	147.7	149.8*
Maintenance and depreciation of buildings and equipment	16	**89.9**	81.8	71.2*	**42.9**	42.5	40.0
Other expenses	7	**123.2**	117.7	110.0	**198.4**	174.1	160.1
Total operating and other expenses		**386.5**	365.8	352.4*	**394.1**	364.3	349.9*
Profit before taxes		**93.9**	70.6	94.1*	**79.4**	64.4	86.6*
Provision for taxes on income	8	**38.3**	22.0	29.1*	**35.0**	21.2	27.8*
Profit after taxes		**55.6**	48.6	65.0*	**44.4**	43.2	58.8*
The Bank's share in the profits of investee companies after tax impact		**-**	-	-	**11.2**	5.4	6.2*
Net profit		**55.6**	48.6	65.0*	**55.6**	48.6	**65.0***
Earnings per share (in NIS)							
Basic and diluted net earnings per share (NIS)	9	**0.79**	0.69	0.92*	**0.79**	0.69	0.92*

Alexander Saltzman
VP, Monetary Division Manager and Chief Accountant

Gil Topaz
CEO

Zeev Nahari
Chairman of the Board of Directors

Approval date of the financial statements:
February 28, 2017

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

The notes to the financial statements constitute an inseparable part thereof.

Consolidated Statement of Comprehensive Income

Reported amounts in millions of NIS

		For the year ended December 31		
	Note	2016	2015	2014
Net profit		55.6	48.6	65.0[(1)]
Other comprehensive income (loss):				
Adjustments with respect to the presentation of available for sale securities at fair value, net	10	(27.7)	3.9	21.0[(2)]
Adjustments of liabilities with respect to employee benefits	10	-	(0.9)	(0.7)[(1)]
Other comprehensive income (loss) before tax		(27.7)	3.0	20.3
Attributable tax impact	10	10.2	(0.9)	(7.7)[(1),(2)]
Other comprehensive income (loss) after taxes		(17.5)	2.1	12.6[(1),(2)]
Total comprehensive income	10	38.1	50.7	77.6[(1),(2)]

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

The notes to the financial statements constitute an inseparable part thereof.

Balance Sheet

Reported amounts in millions of NIS

		Consolidated		The Bank	
		As of December 31			
	Note	2016	2015	2016	2015
Assets					
Cash and deposits in banks	11	**2,522.0**	2,071.9	**2,522.0**	2,071.9
Securities [(1)]	12	**1,434.5**	1,779.5	**1,434.5**	1,797.3
Credit to the public		**9,892.6**	10,000.9	**9,892.6**	10,000.9
Provision for credit losses		**(102.5)**	(111.6)	**(102.5)**	(111.6)
Credit to the public, net	13,30	**9,790.1**	9,889.3	**9,790.1**	9,889.3
Investments in investee companies	15	**-**	-	**397.0**	385.6
Buildings and equipment	16	**157.8**	156.9	**11.3**	12.8
Intangible assets	17	**0.8**	1.2	**0.8**	1.2
Assets with respect to derivative instruments	28	**151.1**	195.1	**151.1**	195.1
Other assets	18	**145.7**	125.6	**134.2**	111.4
Total assets		**14,202.0**	14,219.5	**14,441.0**	14,464.6
Liabilities and capital					
Public deposits	19	**10,868.3**	11,019.0	**12,147.7**	12,501.4
Deposits from banks	20	**36.5**	39.4	**36.5**	39.4
Government deposits		**1.1**	0.8	**1.1**	0.8
Lent securities		**590.4**	387.3	**590.4**	387.3
Bonds and deferred liability notes	21	**1,582.1**	1,634.8	**559.3**	408.2
Liabilities in respect of derivative instruments	28	**146.7**	195.2	**146.7**	195.2
Other liabilities [(2)]	22	**168.6**	159.0	**151.0**	148.3
Total liabilities		**13,393.7**	13,435.5	**13,632.7**	13,680.6
Equity	25A	**808.3**	784.0	**808.3**	784.0
Total liabilities and capital		**14,202.0**	14,219.5	**14,441.0**	14,464.6

(1) For details regarding securities which are measured at fair value, and regarding securities which were pledged, see Note 12.
(2) Of which, a provision for credit losses with respect to off-balance sheet credit instruments in the Bank, and in consolidated form, as of December 31, 2016 in the amount of NIS 2.9 million, as compared with NIS 2.8 million as of December 31, 2015.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Changes in Equity

Reported amounts in millions of NIS

	Capital reserves							
	Paid-up share capital	From premiums	From benefit Due to Shared based payment transactions	Total Paid-up share capital and capital reserves	Other comprehensive income (loss): Accumulated	Retained earnings	Total Equity
Balance as of January 1, 2014	127.3	95.3	4.2	226.8	2.0	461.7	690.5
Net profit for the period	-	-	-	-	-	65.0[1]	65.0[1]
Dividend	-	-	-	-	-	(17.7)	(17.7)
Benefit with respect to share-based payment transactions	-	-	-[3]	-[3]	-	-	-[3]
Other comprehensive income, net, after tax impact	-	-	-	-	12.6[2],[1]	-	12.6[2],[1]
Balance as of December 31, 2014	**127.3**	**95.3**	**4.2**	**226.8**	**14.6**	**509.0**	**750.4**
Balance as of January 1, 2015	127.3	95.3	4.2	226.8	14.6	509.0	750.4
Net profit for the period	-	-	-	-	-	48.6	48.6
Dividend	-	-	-	-	-	(17.1)	(17.1)
Other comprehensive income, net, after tax impact	-	-	-	-	2.1	-	2.1
Balance as of December 31, 2015	**127.3**	**95.3**	**4.2**	**226.8**	**16.7**	**540.5**	**784.0**
Balance as of January 1, 2016	127.3	95.3	4.2	226.8	16.7	540.5	784.0
Net profit for the period	-	-	-	-	-	55.6	55.6
Dividend	-	-	-	-	-	(13.8)	(13.8)
Expiration of benefit with respect to share-based payment transactions	-	4.2	(4.2)	-	-	-	-
Other comprehensive income, net, after tax impact	-	-	-	-	(17.5)	-	(17.5)
Balance as of December 31, 2016	**127.3**	**99.5**	**-**	**226.8**	**(0.8)**	**582.3**	**808.3**

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

(3) Amount lower than NIS 0.1 million.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Cash Flows

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
Cash flows from operating activities						
Net profit for the year	**55.6**	48.6	65.0[1]	**55.6**	48.6	65.0[1]
Adjustments:						
The banking corporation's share in undistributed profits of investee companies	**-**	-	-	**(11.4)**	(4.3)	(7.5)
Depreciation of buildings and equipment	**52.1**	44.6	36.8[1]	**1.5**	1.9	2.5
Expenses with respect to credit losses	**30.4**	40.4	18.4	**30.4**	40.4	18.4
Loss (profit) from the sale of available for sale securities	**(35.2)**	(4.5)	(10.3)	**(35.2)**	(4.5)	(8.9)
Impairment of assets held for sale	**0.1**	-	-	**0.1**	-	-
Realized and unrealized profit from adjustments to the fair value of marketable securities	**0.1**	1.4	(19.2)	**0.1**	1.4	(19.1)
Profit from the realization of buildings and equipment	**-**	(5.8)	-	**-**	(5.0)	-
Expenses due to share-based payment transactions	**-**	-	-	**-**	-	-
Deferred taxes, net	**25.4**	9.4	3.6[1]	**24.2**	9.6	1.0
Retirement pay - increase in the excess of reserves over funds (increase in the excess of funds over reserves)	**0.7**	1.3	(2.3)	**0.8**	1.2	(2.3)
Accrual differences which were included under investing and financing activities	**11.1**	(3.9)	(12.2)	**28.9**	(3.6)	(11.6)
Net change in current assets:						
Credit to the public	**68.7**	(363.2)	41.7	**68.8**	(363.2)	41.7
Assets with respect to derivative instruments	**44.0**	(154.7)	(18.7)	**44.0**	(154.7)	(71.3)
Marketable securities	**10.4**	(303.5)	(63.5)	**10.4**	(303.5)	(18.7)
Other assets	**(34.9)**	10.7	4.5[1]	**(36.4)**	31.4	(11.4)
Net change in current liabilities:						
Deposits from banks	**(2.9)**	(3.1)	(9.0)	**(2.9)**	(3.1)	(9.0)
Public deposits	**(150.7)**	41.8	(93.9)	**(353.7)**	253.4	51.2
Government deposits	**0.3**	(4.2)	4.3	**0.3**	(4.2)	4.3
Lent securities	**203.1**	(195.4)	555.2	**203.1**	(195.4)	555.2
Liabilities in respect of derivative instruments	**(48.5)**	156.2	26.7	**(48.5)**	156.2	26.7
Other liabilities	**39.0**	(2.3)	9.0[1]	**(2.4)**	(13.3)	(8.4)
Net cash from operating activities	**268.8**	(686.2)	536.1[1]	**(22.3)**	(510.7)	597.8

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Cash Flows (Cont.)

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Cash flows from investing activities						
Acquisition of available for sale securities	**(4,365.4)**	(3,242.9)	(2,756.2)[(2)]	**(4,365.4)**	(3,242.9)	(1,955.7)[(2)]
Consideration from the sale of available for sale securities	**4,281.9**	2,652.4	2,600.7	**4,281.9**	2,618.4	1,807.8
Consideration from the redemption of available for sale securities	**414.3**	27.8	55.9	**414.3**	27.8	73.8
Acquisition of buildings and equipment	**(50.9)**	(56.0)	(36.1)[(1)]	**-**	(0.3)	-
Profit from the realization of buildings and equipment	**-**	8.2		**-**	6.7	-
Net cash from investing activities	**279.9**	(610.5)	(135.7)[(1)]	**330.8**	(590.3)	(74.1)
Cash flows from financing activities						
Issuance of bonds and deferred liability notes	**224.5**	465.3	317.4	**224.5**	-	-
Redemption of bonds and deferred liability notes	**(309.3)**	(357.6)	(255.5)	**(69.1)**	(88.0)	(61.4)
Dividend paid to shareholders	**(13.8)**	(17.1)	(17.7)	**(13.8)**	(17.1)	(17.7)
Net cash from financing activities	**(98.6)**	90.6	44.2	**141.6**	(105.1)	(79.1)
Impact of movements in exchange rate on cash balances	**(7.8)**	(19.2)	21.7	**(7.8)**	(19.2)	21.7
Increase in cash and deposits in banks	**457.9**	(1,186.9)	422.9	**457.9**	(1,186.9)	444.6
Balance of cash and deposits in banks at start of year	**2,071.9**	3,278.0	2,833.4	**2,071.9**	3,278.0	2,833.4
Balance of cash and deposits in banks at end of year	**2,522.0**	2,071.9	3,278.0	**2,522.0**	2,071.9	3,299.7
Interest and taxes paid and/or received:						
Interest received	**611.0**	733.5	690.0	**611.0**	733.5	690.0
Interest paid	**163.5**	191.2	302.0	**163.5**	191.2	302.0
Taxes on income paid	**24.8**	16.4	43.8	**21.9**	14.0	40.8
Taxes on income received	**18.6**	29.4	8.7	**16.1**	15.7	7.4
Non-cash investing activities during the reporting period						
Acquisition of fixed assets on credit	**10.6**	8.6	10.3	**-**	-	-

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

The notes to the financial statements constitute an inseparable part thereof.

Notes to the Financial Statements

Report for 2016

Bank of Jerusalem Ltd. and its Consolidated Companies

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Note 1 - Accounting Policy

Bank of Jerusalem Ltd. (hereinafter: the "Bank") is a commercial bank which is engaged in the provision of housing credit and other retail credit, in business financing for residential construction, and in the raising of deposits for limited periods, activities in the capital market, management of checking accounts and provision of private banking services to foreign residents.

The Bank is a subsidiary of Export Investment Co. Ltd. (hereinafter: "Export"), and its shares are listed for trading on the Tel Aviv Stock Exchange.

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and in accordance with the public reporting regulations and directives issued by the Commissioner of Banks.

Regarding most issues, these directives are based on generally accepted accounting principles for banks the United States. Regarding other, less material issues, the directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow several alternatives, or do not include specific reference to a particular situation, these directives include specific guidelines for application, which are primarily based on generally accepted accounting principles for banks in the United States.

Presented below is a summary of the significant accounting principles which were consistently applied in the preparation of the financial statements, and which comply with the directives and guidelines issued by the Commissioner of Banks:

A. Framework for preparation of the financial statements

1. Measurement basis of the financial statements

The Bank prepared the financial statements according to historical cost adjusted to the consumer price index. The aforementioned adjusted amounts which were included in the financial statements as of December 31, 2003 served as a starting point for nominal financial reporting beginning on January 1, 2004. Additions which were performed following the date of the transition were included at nominal values. In accordance with accounting standard 12, regarding the "Discontinuation of the adjustment of financial statements", the adjustment of the financial statements for inflation was discontinued on December 31, 2003, and from that date onwards, the Bank began reporting according to reported amounts. The amounts of non-monetary assets do not necessarily represent disposal value of current economic value, but rather only the reported amounts of those assets.

In the financial statements, "cost" means cost according to reported amounts.

The summary of the Bank's data in historical nominal values for tax purposes is provided in Note 36.

2. Consolidation principals

The Bank's consolidated financial statements include the reports of companies over which the Bank holds control. Mutual balances and transactions between the Bank and the subsidiaries were canceled in the consolidated financial statements. In the Bank's separate reports, investments in investee companies are presented according to the equity method.

3. Functional currency and presentation currency

The functional currency and presentation currency of the Bank and its subsidiaries is the New Israeli Shekel. The New Israeli Shekel is the currency which represents the Group's main economic operating environment.

4. Foreign currency and linkage

Assets and liabilities in foreign currency or linked thereto, and those linked to the consumer price index, are included in the financial statements as follows:

A. Those linked to the consumer price index are presented according to the known index on the balance sheet date.

B. Those denominated in foreign currency, or linked thereto, are presented according to the representative exchange rates which were published by the Bank of Israel on the balance sheet date, except where the terms of the agreement specify otherwise.

Presented below are details regarding the consumer price index and the representative USD exchange rate, and their rates of increase (decrease):

	As of December 31			Rate of increase (decrease) in		
	2016	2015	2014	2016	2015	2014
					In percent	
USD rate	3.845	3.902	3.889	1.5	0.3	12.0
Consumer price index - 1993 base (points):						
November (known index)	220.7	221.4	223.4	(0.3)	(0.9)	(0.1)
December (index in lieu)	220.7	221.1	223.4	(0.2)	(1.0)	(0.2)

Transactions in currencies other than the functional currency were handled as follows:

A. A transaction denominated in foreign currency is recorded, at the time of initial recognition, in the functional currency, while using the immediate exchange rate between the functional currency and the foreign currency on the date of the transaction for each balance sheet date. Monetary items in foreign currency balance sheet date according to the immediate exchange rate on the balance sheet date.

B. On each balance sheet date, non-monetary items in foreign currency which are measured at historical cost are translated according to the exchange rate as of the date of the transaction.

C. On each balance sheet date, non-monetary items in foreign currency which are measured at fair value are translated according to the exchange rate on the date of the determination of fair value.

D. Foreign currency differences due to the settlement of monetary items, or due to the translation of monetary items according to different exchange rates than whose which were used for translation at the time of initial recognition during the period, or than those which were used for translation in previous financial statements, are recognized in the statement of income for the period in which they materialized.

5. Use of estimates in the preparation of the financial statements

The preparation of the financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines issued by the Commissioner of Banks requires management to use estimates, approximations and judgment which affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and contingent liabilities, and the amounts of income and expenses during the reporting period. It is hereby clarified that actual results may differ from these estimates.

At the time of formulation of accounting estimates which are used in the preparation of the Bank's financial statements, bank management is required to make assumptions regarding circumstances and events which involve significant uncertainty. In its judgment regarding the determination of estimates, bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period when the estimates were amended, and in each affected future period.

B. Accounting policy which was applied in the preparation of the financial statements

B.1. Business combinations:

The Bank applies the acquisition method to each business combination.

The acquisition date is the date when the buyer obtains control of the acquired entity. The Bank holds control of the acquired entity when it has the ability to direct the policy and management of the acquired entity, including through ownership or agreement. The evaluation of control does not include taking into account potential rights.

The Bank recognizes goodwill as of the acquisition date according to the fair value of the consideration which was transferred, including amounts which were recognized with respect to any non-controlling interests in the acquired entity, and the fair value as of the acquisition date of a capital right in the acquired entity which was held previously by the buyer, after deducting the net amount attributed in the acquisition to the identifiable assets which were acquired, and the liabilities which were accepted.

The Bank recognizes, on the acquisition date, any contingent liability which was accepted in a business combination, if its fair value is reliably measurable.

If the Bank performs a bargain purchase (a purchase which includes negative goodwill), before recognizing the profit which was created as a result in the statement of income on the acquisition date, after performing an additional evaluation of the attribution to the assets and liabilities of the acquired entity, the Bank must first contact the receipt of the Banking Supervision Department to receive preliminary instructions. Additionally, goodwill is not updated with respect to the use of transferred losses for tax purposes which existed on the date of the business combination.

The transferred consideration includes the fair value of the assets which were transferred to the previous owner of the acquired entity, the liabilities which materialized for the buyer vis-à-vis the previous owner of the acquired entity, and capital interests which were issued by the Group. In a business combination which was realized in stages, the difference between the fair value as of the acquisition date of the capital interests in the acquired entity which were previously held by the group, and the book value as of that date, is applied to the statement of income under the item for "non-interest financing income - profit or loss from investment in stocks", as part of activities for non-trading purposes. Additionally, the consideration which was transferred includes the fair value of contingent consideration. After the acquisition date, the Bank recognizes changes in the fair value of a contingent consideration which is classified as a financial liability in the statement of income, while a contingent consideration classified as a capital instrument is not remeasured.

Costs associated with acquisition which materialized for the Bank with respect to business combinations, such as agent commissions, consulting fees, legal fees, appraisals and other fees with respect to professional services or consulting services, are recognized as an expense in the period when the costs materialize and the services are received. Costs associated with the issuance of equity or debt instruments are treated in accordance with the relevance provisions of the public reporting regulations.

On March 12, 2014, a tax decision was received from the Israel Tax Authority, regarding the implementation of a structural change, according to which approval was given, as of December 31, 2013, for the plan involving the merger of Clal Finance Batucha Investment Management Ltd. into Bank of Jerusalem. For additional details, see Note 8.H to the financial statements.

As a result of the presentation of the deferred tax asset with respect to the transferred losses, retained earnings were created from an acquisition at an opportune price.

In accordance with a directive issued by the Banking Supervision Department, this profit is recorded as deferred income, which will be amortized over a period of 5 years, in a straight line (NIS 11.5 million per year during the years 2014 to 2018) from the acquisition date, and is included in the statement of income under the item for other income.

It is noted that for the purpose of measuring capital adequacy, in accordance with the arrangement with the Banking Supervision Department, with the aim of implementing the provisions of Basel III, the balance of the aforementioned deferred income will be set off from the balance of deferred taxes which was created as a result of the aforementioned acquisition, at the end of each reporting period.

B.2. Recognition basis under income and expenses

Income and expenses are recognized in the statement of income on an accrual basis, excluding:

1. For details regarding the recognition of income with respect to impaired debts, see section B.6 below.
2. Fees from financing transactions which deal with fees with respect to receipts, guarantees and certificate credit are recognized on a proportionate basis for the transaction periods.
3. For details regarding the recognition of income and expenses with respect to securities and with respect to derivative financial instruments, see section B.4 below and section B.14 below, respectively.
4. Direct fees involved in the creation of the loan are deferred and recognized as an adjustment of returns over the lifetime of the loan. These fees include, inter alia, fees which were received from the borrower as prepaid interest, or which are intended to reduce the nominal interest rate on the loan, fees which constitute a reimbursement of expenses to the Bank with respect to the creation of the loan, fees which represent remuneration to the Bank with respect to its consent to provide a loan under complex terms, or within a short timeframe, as well as fees which the borrower was charged in connection with the process of creating the loan, such as management fees, placement fees, organization fees, underwriting fees, and other fees associated with loan provision transactions.

5. Fees which are received as a result of a restructuring (which is not the refinancing of troubled debt) are treated in the following manner:

   The Bank evaluates the changes which were implemented, and determines whether, as a result, the terms of the new loan are at least as preferable for the Bank as the terms of comparable loans to other customers with similar collection risks, or whether the changes are only minor.

   A minor change is considered a change in the terms of the loan where, as a result of the change, the present value of the cash flows from the loan after the change is less than 10% different than the present value of the remaining cash flows, in accordance with the terms of the original debt instrument. In the above case, all net commissions which were not amortized with respect to the original loan are included in the existing loan amount as an adjustment of returns, as part of the interest income over the remainder of the loan period. However, if it was determined that the change in the loan terms is not minor, the loan which was refinanced is treated as a new loan, and accordingly, the fees which have not yet been amortized are immediately charged as interest income in the statement of income (including early repayment fees, if any).
6. Early repayment fees which were created from transactions before January 1, 2014 are recognized under interest income, and are distributed in the statement of income at equal rates, according to the remainder of the credit repayment period, or within three years from the repayment date - according to the shorter period of the two. Early repayment fees which were created after January 1, 2014 are immediately recognized or treated in accordance with the other fees which have not yet been amortized.

For details regarding directives issued by the Commissioner of Banks on the subject of "Revenue from contracts with customers", see section E2 below.

B.3. Setting off of financial assets and liabilities

The Bank applies the rules which were specified in the circular issued by the Commissioner of Banks on December 12, 2012, which updates the public reporting regulations of the Commissioner of Banks regarding the setting off of assets and liabilities. The amendments specified in the circular are intended to adjust the directives on this issue to generally accepted accounting principles in the United States.

In accordance with the directives, the Bank sets off assets and liabilities which are due to an identical counterparty, which are presented in the balance sheet according to the net amount, upon the fulfillment of the following cumulative conditions:

- With respect to those liabilities, there is a legally enforceable right to set off the liabilities from the assets;
- There is an intent to repay the liabilities and to realize the assets on a net basis and/or simultaneously.
- The Bank and the counterparty owe determinable amounts to one another.

Assets and liabilities with two counterparties are presented in the balance sheet according to the net amount, upon the fulfillment of the cumulative conditions specified above, and provided that there is an agreement between the three parties which clearly establishes the Bank's right to those liabilities for setting off.

Note 1 - Accounting Policy (Cont.)

In certain cases, a bank is entitled to set off fair value amounts which were recognized with respect to derivative instruments and fair value amounts which were recognized with respect to the right to demand repayment of a collateral in cash (receivables) or the obligation to repay a collateral in cash (payables), which are due to derivative instruments which were performed with the same counterparty, in accordance with a master netting arrangement. The Bank does not set off between amounts with respect to derivative instruments against liabilities with respect to derivative instruments, unless all of the aforementioned cumulative conditions are fulfilled.

The Bank evaluates the existence of legal restrictions in order to determine that the right is legally enforceable. In order for a legally enforceable right to exist, the Bank evaluates whether the right to offset will also be valid in case of bankruptcy or other receivership proceedings.

Deposits whose repayment to the depositor is contingent upon the collection rate from the credit were offset from the credit which was given from those deposits, when the Bank has no risk of loss from the credit. The margin in the aforementioned activity is included under the item for ”Fees”.

B.4. Securities

1. Bonds held to maturity - bonds which the Bank intends and is able to hold until the maturity date, excluding bonds which are repayable through an early repayment, or which may be settled by other means, in a manner whereby the Bank does not cover substantially all of its recorded investment. Bonds held to maturity are presented according at amortized cost as of the reporting date.
2. Available for sale securities - securities which were not classified as bonds held to maturity or as marketable securities. Available for sale securities are presented in the balance sheet according to their fair value on the reporting date. The fair value is based on quoted prices for securities which have quoted prices, or based on revaluation data which are received from external sources, regarding bonds which have no price. The profit or loss with respect to them, less the appropriate reserve for tax, is presented in a separate item under equity: “Adjustments with respect to the presentation of available for sale securities at fair value “.
3. Marketable securities - securities which were acquired and which are held with the aim of selling them in the near term, or securities which the Bank has chosen to measure at fair value through profit and loss according to the fair value alternative, excluding shares for which there is no available fair value. Marketable securities are presented according to their fair value on the reporting date. Profit or loss from adjustments to fair value are applied to the statement of income, under the item for non-interest financing income.
4. Classification of income (expenses) in the statement of income:
   - Interest income based on accrual on bonds which are held to maturity, available for sale, and held for trading are recognized under the item for “interest income”.
   - Realized and unrealized profit (loss) from adjustments to fair value of bonds held for trading is presented under the item for “Non-interest financing income with respect to activities for trading purposes”.
   - Profit (loss) from the sale of bonds held to maturity and available for sale (including impairment loss) is presented in the item for “Non-interest financing income with respect to activities for non-trading purposes”.

5. The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, the following indicators are evaluated, inter alia:
   - The banking corporation's intent and ability to hold the securities for a sufficient period, which will allow restoring the security to its original cost.
   - The scope of the value of collateral which backs up the security.
   - The period of time during which the value of the security was low relative to its cost.
   - Rate of impairment from total cost.
   - An evaluation of the terms which reflect the financial position of the issuing entity, including whether the impairment is due to specific reasons in the issuer, or due to the existence of macro-economic conditions.

   Additionally, in the event of one of the following situations, the Bank recognizes other than temporary impairment:
   - A security which was sold by the publication date of the report for this period.
   - A security which, proximate to the publication date of the report for this period, the banking corporation intends to sell within a short time frame.
   - A bond regarding which significant impairment has occurred in the bond rating on the date of its acquisition by the banking corporation, and the bond rating on the publication date of the report for this period.
   - A bond which, after its acquisition, was classified by the banking corporation as troubled.
   - A bond regarding which there was a payment failure after its acquisition.
   - A security whose fair value, in general, as of the end of the reporting period, and also proximate to the publication date of the financial statements, is significantly lower than the cost (amortized cost), unless it has been proven, with a high degree of likelihood and based on objective evidence, that the impairment is of a temporary nature only.

   Additionally, in case of the cumulative fulfillment of the following two situations, the Bank recognizes other than temporary impairment:
   - Decrease of 40% in the value of the security relative to amortized cost.
   - Decrease for a continuous period of nine months.

   If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

   On subsequent dates to the recognition of impairment, interest income from investments in securities which constitute debt instruments will generally be recognized on an accrual basis, in accordance with the difference between the expected cash flows of the debt instrument to the instrument's fair value on the date of the impairment (new cost basis). Regarding beneficiary rights which were acquired, or beneficiary rights which continue to be held by the banking corporation, through the securitization of financial assets, and which are accounted by the prospective interested method, it is possible that in rare cases, if there is no available reasonable estimate regarding amounts and regarding the timing of the cash flows which are expected for collection, the Bank will recognize income in accordance with the cost repayment method, or in accordance with recognition on a cash basis.

B.5. Transfers and servicing of financial assets and extinguishments of liabilities

The Bank applies the measurement and disclosure rules which were specified in ASC 860-10 (FAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended by ASC 860-10, Transfers and Servicing of Financial Assets (FAS 166), for the purpose of handling transfers of financial assets and extinguishments of liabilities. In accordance with these rules, the transfer of a financial asset will be accounted for as a sale, if and only if all of the following conditions are fulfilled: (1) The transferred financial asset has been isolated from the transferring entity, also in case of bankruptcy or other receivership proceedings; (2) Any recipient (or, if the recipient is an entity which whose entire purpose is to deal in securitization or in asset-backed financing activities, and where that entity is prevented from pledging or replacing the financial assets which it has received, any third party which holds beneficiary rights) may pledge or replace the assets (or the beneficiary rights) which it has received, if no condition exists which also restricts the recipient (or a third party who holds the beneficiary rights) from exercising its right to pledge or to replace, and also provides the transferor with a benefit greater than a trivial benefit; (3) The transferor, or consolidated companies which were included in its financial statements, or its agents, do not maintain effective control of the financial assets or if the beneficiary rights which are attributed to these transferred assets.

Additionally, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the entire financial asset; All cash flows which are received from the assets must be divided between the participatory rights in a proportional rate to their share in ownership; The rights must not be subordinated to other rights; There must be no right of recourse to the transferor or to other holders of participatory rights (excluding in case of breach of representations or liabilities, current contractual liabilities to service a financial asset in its entirety and management of the transfer agreement, and contractual undertakings to divide the offsetting of any benefits which were received by any holder of the participatory rights); And the transferor and the holder of participatory rights must not have the right to pledge or exchange the financial asset in its entirety, excluding if all holders of participatory rights agree to pledge or to exchange the financial asset in its entirety.

If the transaction fulfills the conditions for treatment as a sale transaction, the transfered financial assets are written off from the Bank's balance sheet. If the terms of the sale are not fulfilled, the transfer is considered a secured debt. The sale of part of a financial asset which is not a participatory right is treated as a secured debt, i.e., the transferred assets continue to be recorded in the Bank's balance sheet, and the consideration from the sale is recognized as a liability of the Bank.

The securities which were sold were not written off from the balance sheet, and are presented in the item for securities, and against them, the deposit for which those securities were pledged to secure its repayment, is presented under the item for "Securities which were lent or sold within the framework of repurchasing agreements". Securities which were acquired are recorded according to their value on the date of performance of the transaction, under the item for "Securities which were borrowed or acquired within the framework of repurchasing agreements".

The Bank monitors the fair value of securities which were borrowed and lent, and of securities which were transferred under repurchasing and resale agreements, on a daily basis, and collateral is required in appropriate cases. Interest which was received or paid with respect to such securities is reported as financing income or expenses, respectively.

In accordance with the directives issued by the Commissioner, transactions involving the lending of securities, which are performed as "ordinary" credit transactions, in which the Bank lends securities against the collateral portfolio and the borrower does not transfer to the banking corporation a security margin which specifically refers to a securities lending transaction, are presented as credit to the public according to market value, and are added to the borrower's debt. Changes in the value of the aforementioned securities on an accrual basis are applied to the statement of income, under the item for "Income from credit to the public", and the adjustment to market value is applied to adjustments with respect to available for sale securities at fair value.

Short sale of borrowed securities:

When a banking corporation short sells securities which were borrowed by it, cash against deposit is recognized. The deposit is only revalued if the value of the security increased during the relevant period, and is recognized under the item for "non-interest financing income".

The Bank writes off a liability only if the liability has been extinguished, in other words, if one of the following conditions has been fulfilled: (a) the Bank paid to the lender and was released from its obligation due to the liability, or (b) the Bank was legally released, through legal proceedings, or with the consent of the lender, from its status as primary debtor with respect to the liability.

B.6. Measurement and disclosure of impaired debt, credit risk and provision for credit losses

In accordance with the directive issued by the Commissioner of Banks on the subject of the measurement and disclosure of impaired debts, credit risk and the provision for credit losses, the Bank applies, as of January 1, 2011, the American accounting principles on the subject (ASC 310), and positions of banking supervision authorities in the United States, and of the Securities Exchange Commission in the United States, as adopted in the public reporting regulations. Additionally, beginning on January 1, 2012, the Bank has applied the directives issued by the Banking Supervision Department on the subject of updating the disclosure of credit quality of debts, and of the provision for credit losses.

The directive is applied to all debit balances, including deposits in banks, bonds, securities which were borrowed or acquired within the framework of resale agreements, credit to the public, credit to the government, etc. Credit to the public and other debit balances regarding which no specific rules were established in the public reporting regulations on the subject of the measurement of the provision for credit losses (such as credit to the government, deposits in banks, etc.) are reported in the Bank's books according to the recorded debit balance. The recorded debit balance is defined as the debit balance, after the deduction of accounting write-offs, but before the deduction of the provision for credit losses with respect to that debt. The recorded debit balance does not include accrued interest which is unrecognized, or which was previously recognized and subsequently canceled. Regarding other debit balances, for which specific rules on the subject of measurement and recognition of the provision for impairment (such as bonds), the Bank continues applying the same measurement rules.

Classification of troubled debts:

The Bank established policies for the identification of troubled credit and for the classification of debts as impaired. In accordance with the policies, the Bank classifies all of its troubled debts and off-balance sheet credit items under the classifications of: special supervision, subordinated or impaired, as follows:

- **Credit under special supervision** - credit under special balance sheet supervision is credit regarding which potential weaknesses exist which are worthy of special attention from the corporation's management. Off-balance sheet credit is classified as credit under special supervision if the realization of contingent liabilities with respect to the item is defined as "possible", and if the debts which may be recognized as a result of the contingent realization would be appropriately classified under this category.
- **Subordinated credit** - is defined as credit which is insufficiently hedged by the present established value and the debtor's repayment ability, or the pledged collateral, if any. Balance sheet credit risk which has been classified, as stated above, involves a clearly defined weakness or weaknesses which endanger the realization of the debt. Credit regarding which a provision for credit losses is recognized, on a collective basis, will be classified as subordinated when it becomes debt in arrears of 90 days or more.
- **Impaired debt** - credit regarding which the banking corporation expects that it will not be able to collect all of the amounts with respect to it, according to the contractual terms of the debt agreement, and the provision for credit losses with respect to it, is measured according to the individual provision track. The aforementioned classification should also be applied to credit in arrears of over 90 days, and to troubled debt which was restructured, where as part of the restructuring, the Bank provided a concession to the debtor which, under different conditions, it would not have considered providing. Debt which has been classified as impaired will be assessed on an individual basis, for the purpose of implementing a provision for credit losses, or for writing it off. In light of the fact that the debt regarding which the troubled debt was restructured will not be repaid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, also after the debt has been returned to the repayment track, under the new terms. Notwithstanding the above, troubled debts in a restructuring will resume accruing interest once the debt has been paid according to the terms of the arrangement, for a continuous period of at least 6 months, and where the expectation regarding the repayment of the credit is supported by a well-established credit assessment, and only after payments have been received which significantly lessen the debit balance. Classification of troubled debt as "impaired", excluding in a restructuring process of troubled debt, will be canceled if the following cumulative conditions are fulfilled: (a) the debt must be well secured and under collection proceedings. (b) there must be no "arrear components" with respect to the debt (including write-offs), and in the Bank's assessment, the original debit balance is expected to be repaid in full.

Interest income may not be recorded with respect to impaired debt. Regarding debts which are evaluated and provided on a collective basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income. Upon the collection of impaired debt on a cash basis, if there is a doubt regarding the collection of the remaining recorded balance of the debt, the receipt will be used to reduce the recorded balance, to the degree required to remove such doubt. If there is no doubt regarding the collection of the remaining recorded balance of the debt, the receipt will be recognized as interest income on a cash basis.

On the date when the debt is classified as impaired, the Bank defines the debt as non-interest income accruing debt, and discontinues accruing interest income with respect to it, excluding the following regarding certain debts which have been restructured. Additionally, on the date when the debt is classified as impaired, the Bank cancels all the interest income which has accumulated and recognized as income under profit and loss, but which has not yet been collected. The debt continues being classified as non-interest accruing debt, so long as the classification as impaired debt has not been canceled for it. Debt which has been formally restructured as troubled debt, and where following the restructuring, there is a reasonable measure of confidence that the debt will be repaid and executed according to its new terms, will be accounted for as impaired debt which accrues interest income.

With respect to impaired debts which do not accrue income, cash receipts are recognized in the following manner - if there is doubt regarding the recorded balance, any receipt serves first to reduce the principal. If the recorded balance of the debt is collectible, any cash is recognized as interest income up to the amount of the current interest which would be recognized on an accrual basis, and if any surplus remains, previous accounting write-offs are reduced. In any case, the collection ability relies on a current and documented credit assessment.

Regarding debts which are evaluated and provided for on a collective basis, which are in arrears of 90 days or more, the Bank does not stop the accrual of interest income. These debts are subject to methods for the evaluation of the provision for credit losses, which ensure that the Bank's profits are not biased upwards. Fees with respect to late payments on such debts are included as income on the date when the right to receive them from the customer materialized for the Bank, provided that the collection is reasonably assured.

- **Troubled debt in restructuring** - in April 2011, the FASB published an accounting standard update ASU 2011-02, on the subject of a decision available to a credit provider, regarding whether a debt restructuring constitutes a troubled debt restructuring. In accordance with American standards on the subject (ASC 310), a debt which has been restructured as troubled debt is a debt which has undergone formal restructuring, as part of which - due to economic or legal reasons which are associated with a debtor's financial difficulties - the Bank has granted a concession to the borrower. For the purpose of determining whether a debt arrangement which was performed by the Bank constitutes a restructuring of troubled debt, the Bank performs a qualitative test of the entire set of circumstances of the arrangement, and of the circumstances in which it was performed, with the aim of determining whether: (1) The debtor is experiencing financial difficulties; and (2) the Bank has granted a concession to the debtor under the arrangement. For the purpose of determining whether the debtor is experiencing financial difficulties, the Bank evaluates whether there are indicators that the borrower is experiencing difficulties on the date of the arrangement, or regarding the existence of a reasonable possibility that the borrower will run into financial difficulties if the arrangement is not implemented. The Bank evaluates, inter alia, the existence of one or more of the circumstances specified below:

- As of the date of the debt arrangement, the borrower is in default, including when another debt of the borrower is in default;
- Regarding debts which, as of the arrangement date, are not in arrears, the Bank evaluates whether, according to the current repayment ability, it is probable that, in the foreseeable future, the borrower will enter a state of default, and will not fulfill the original contractual terms of the debt;
- The debtor has been declared bankrupt, is undergoing assets receivership proceedings, or there are significant doubts as to the borrower's continued existence as a going concern; And
- Without changing the terms of the debt, the debtor will be incapable of raising debt from other sources according to the conventional market interest rate for debtors who are not in default.

Additionally, according to the current standards, an insignificant postponement of payments will not constitute a concession. The ASU provides a list of indicators which indicate that the delay is immaterial, such as: the amount of the restructured payments is immaterial relative to the unpaid balance of the debt, or relative to the value of the collateral, and the postponement is immaterial relative to the frequency of payments (monthly, quarterly, etc.), the original repayment date and the original expected lifetime of the debt. In accordance with the ASU, the credit provider must take into account the cumulative effect of a debt restructuring which was performed in the past at the time of performance of an evaluation regarding whether the postponement is immaterial.

Debts whose terms were changed in a troubled debt restructuring, including those which were evaluated, prior to the restructuring, on a collective basis, will be classified as impaired debt, and will be evaluated on an individual basis, regarding the need to perform a provision for credit losses or accounting write-off. In light of the fact that the debt regarding which the troubled debt was restructured will not be repaid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, also after the debt has been returned to the repayment track, under the new terms.

In case a troubled debt restructuring has been implemented, in which the Bank accepted assets as full or partial repayment of the debt, such as rights to equity, third party receivables or other assets which will subsequently be sold, such assets will be recognized according to the fair value of the assets on the date when possession is seized. If the assets which were received constitute full repayment of the debt, and on the date of receipt of possession, the recorded debit balance exceeds the fair value of the assets, the Bank recognizes the loss and a provision for credit losses. In any case, if the assets which were received were sold slightly after possession thereof was received (mostly up to 90 days) so long as no significant change has occurred in the fair value estimate, the Bank replaces the fair value estimate with the price which was received in the sale, net of selling costs, and adjusts the provision for credit losses.

See section E7 below for details regarding directives issued by the Commissioner of Banks on the subject of "restructuring of troubled debt";

Note 1 - Accounting Policy (Cont.)

Provision for credit losses:

A banking corporation is required to maintain a provision for credit losses at an appropriate level in order to cover expected credit losses with reference to its credit portfolio, including with respect to off-balance sheet credit risk. The provisions for credit losses will include:

- **Individual provision for credit losses** - the individual provision for credit losses is performed based on a measurement of the debt's impairment, based on the present value of the expected future cash flows, discounted by the debt's effective interest rate, or when the debt is dependent on collaterals, or when possession of the asset is expected to be received according to the fair value of the collateral which was pledged to secure that credit (less selling costs). The need for a specific provision is evaluated with respect to debts whose contractual balance as of the evaluation date (without deducting accounting write-offs which are not associated with legal concessions), unrecognized interest, provisions for credit losses and collaterals) is NIS 1 million or more, and any other debt which was identified for the purpose of a specific evaluation by the banking corporation.

  For this purpose, the Bank defines debt as debt contingent upon a security when its repayment is expected to be performed exclusively from the security which is pledged in favor of the Bank, or when the Bank is expected to receive repayment of the asset which is held by the borrower, even if there is no specific pledge on the asset, when the borrower has no other available and reliable material sources for repayment.

- **The collective provision for credit losses** is applied for large groups of relatively small and homogeneous debts, and with respect to debts which were specifically evaluated and found to be non-impaired. The measurement of credit losses is based on the rules which were determined in ASC 450 (FAC 5) - accounting treatment of contingencies, and on transitional provisions, as specified below. With respect to the years 2011-2012, a transitional provision was issued regarding the calculation of credit losses on a collective basis. According to the transitional provision, the rates of the collective provision for credit losses on a collective basis will be determined during the transition period, based on the range of historical provision rates for doubtful debts in the last five years, and in accordance with the directive issued by the Commissioner specifically, also the data for 2011, segmented by market branches, and on the net rate of accounting write-offs which were actually recorded beginning on January 1, 2011.

  Additionally, the Bank evaluates, on each reporting date, whether the balance of the collective provision is not lower than the balance of the general, additional and special provision for doubtful debts as of that date, which is calculated in accordance with Proper Banking Management Directive 315, regarding "provision for doubtful debts", gross of tax.

  The provision which is evaluated on a collective basis for off-balance sheet credit instruments is based on the provision rates which were determined for balance sheet credit, in consideration of the expected rate of credit realization of off-balance sheet credit risk. The rate of credit realization is calculated by the Bank based the credit conversion factors specified in Proper Banking Management Directive 203, measurement and capital adequacy - credit risk - the standard approach, with certain adjustments in cases where the Bank has past experience which indicates the credit realization rates.

- **Collective provision with respect to credit to private individuals** - On January 19, 2015, a circular was published on the subject of the collective provision with respect to credit to private individuals. The circular prescribes that the determination of an adequate provision for credit losses of banking corporations and credit card companies should take into account both past losses due to credit to private individuals, and adjustments with respect to factors which are relevant to the collection chances of credit to private individuals (hereinafter: the "Qualitative Adjustments"). Banks are required to verify, beginning with the public reports for 2014, that the rate of qualitative adjustments to the collective provision for credit losses with respect to non-troubled credit to private individuals does not fall below 0.75% of the balance of non-troubled credit to private individuals as of that date. The above does not include credit risk due to receivables with respect to bank credit cards which do not charge interest, and individual treatment was established for banking corporations whose annual loss rates are particularly low. Additionally, adjustments with respect to environmental factors will not apply to a banking corporation regarding which the Banking Supervision Department has issued specific directives.

  See section D4 below regarding directives issued by the Commissioner of Banks with respect to the calculation of the collective provision for credit losses.

- **Provision for credit losses with respect to housing loans**

  Beginning on January 1, 2006, the Bank has applied the directives issued by the Commissioner of Banks regarding the application of the Proper Banking Management Directive on the subject of "provisions for doubtful debts with respect to housing loans" (hereinafter: the "Directives Issued by the Commissioner"). The Commissioner's directives referred to a number of main issues on all matters associated with the method used to calculate the provisions for doubtful debts with respect to a housing loan, including standard calculation rules to determine the minimum provision with respect to housing loans, whose extent of arrears exceeds six months. The provision is calculated at rates of 8% to 80% of the balance of the debt in arrears, in accordance with the extent of the arrears.

  The Bank's policy is to write-off housing loans which are provided to losses but where, as a result of collection processes, there is no balance of collateral to realize the debt. Update to provisions on the subject of residential housing (hereinafter: the "Provisions") - In accordance with the Commissioner's circular dated March 21, 2013, beginning on June 30, 2013, the balance of the collective provision for credit losses with respect to housing loans supervisor 0.35% of the balance of the aforementioned loans as of the reporting date. The above does not apply to housing loans with respect to which a provision is held according to the extent of the arrears, or a specific provision.

Accounting write-offs:

The Bank performs accounting write-offs in the following cases:

- Any debt, or any part thereof, which is evaluated on an individual basis, and which is considered

Note 1 - Accounting Policy (Cont.)

noncollectable, or any debt with respect to which the Bank performs long term collection efforts.

- Any debt with respect to which the Bank conducts collection efforts, and for which specific provisions for credit losses have been performed. Generally, in a period which does not exceed two years.
- In case of debt whose collection is conditional on securities, any part of the surplus debt over the value of the collaterals which is identified as noncollectable debt will be immediately written off, against the provision for credit losses.
- Troubled debts where the provision with respect to them is measured based on a collective provision for credit losses, where the period of the arrears exceeds 150 days.
- It is clarified that accounting write-offs do not involve a legal concession, and reduce the reported balance of the loan for accounting purposes only, while creating a new cost basis for the debt in the Bank's books.

Disclosure requirements:

The Bank applies the disclosure requirements with respect to the credit quality of debts and the provision for credit losses as determined in Accounting Standards Update 2010-20. The foregoing requires the Bank to provide extensive disclosure in connection with the debit balances, movements in balances of the provision for credit losses, indications of credit quality, material acquisitions and sales of debts during the period.

Additionally, beginning in 2015, in accordance with the directives issued by the Banking Supervision Department regarding structural changes of the financial statements, the Bank presents a summary of primary information regarding credit risks, credit to the public and the provision for credit losses (see Note 13), and additional information regarding credit risk, as stated above (see Note 30).

B.7. Fixed assets

Recognition and measurement

Buildings and equipment are presented at cost, less accumulated depreciation and impairment loss. The cost includes costs which are directly attributable to fixed assets and to bringing it to the location and condition needed for its operation. When significant parts of fixed assets have a different lifetime, they are accounted for as separate items of the fixed assets. Buildings up for sale are presented according to their cost or disposal value, whichever is lower.

Subsequent costs

The cost of replacing a part of a fixed asset item is recognized as part of the book value of that item if it is expected that the future economic benefits embodied in the replaced part will flow to the Bank if its cost is reliably measurable. The book value of the replaced part is written off. Current maintenance costs of fixed asset items are applied to the statement of income upon their materialization.

Software costs

Software purchased by the Group is measured at cost, which generally includes transaction costs, after deducting accrued amortization and impairment loss.

The discounting of costs associated with software development for self use begins only when: the first stage of the project has been completed; and management, with the appropriate authority, has approved and undertaken to finance, directly or indirectly, a software development project, and development is expected to be completed, and future economic benefits are expected to materialize from the software. Upon development or obtaining of a software for self use, the following costs are discounted: direct costs of materials and services which were consumed, work salary costs for employees who are directly associated with the development or software obtaining activity, and interest costs which have materialized. Other costs with respect to development activities and costs in the preliminary stage of the project are applied to the statement of income upon their materialization.

Subsequent costs

Costs of upgrades and improvements to software for self use are discounted only if it is expected that the expenses which have materialized will lead to additional functionality. Other subsequent costs are recognized as an expense upon their materialization.

Depreciation

Depreciation is calculated from cost and charged to the statement of income (unless it was included in the book value of another asset), according to the estimated period of use, using the straight line method, beginning on the date when the asset is ready for use relative to its original cost. Leasehold improvements are amortized over the lease period, including an option which is likely to be realized, or their useful lifetime, whichever period is shorter. Estimates regarding useful lifetime and residual value are re-evaluated from time to time. Amortization is calculated according to equal annual rates, as follows:

		In percent
Offices for rent	4	
Furniture and office equipment	7-10	(mostly 7%)
Computers and associated equipment	20-33	
Software costs	20-33	
Leasehold improvements	10	

The amortization of intangible assets, including software assets, is applied to the statement of income according to the straight line method over the estimated useful lifetime of intangible assets, beginning from the date when the assets became available for use.

Intangible assets which are created in the Bank (such as software under development) are not systematically amortized so long as they are not available for use, in accordance with management's decision. Therefore, impairment with respect to these intangible assets is evaluated at least once per year, until the date when they become available for use, in accordance with management's decision.

Write-offs

The book value of fixed assets is written off upon disposal or when future economic benefits are no longer expected to flow from its use or disposal. The difference between the net consideration from the disposal, if any, and the book value of the asset which was written off, is charged to the statement of income, under the item for "Other income".

B.8. Intangible assets and goodwill

The section includes intangible assets which have been purchased separately or within the framework of a business combination, intangible assets which were developed in the banking corporation excluding software development costs for self use which are included under the item for "buildings and equipment", service assets and goodwill.

Intangible assets are assets which are non-monetary, identifiable and have no physical form. The criterion of identifiability in the definition of an intangible asset is fulfilled if the asset is separable, or if the asset is due to contractual rights or other legal rights, without taking into account whether such rights are transferable or separable from the Bank or from other rights or obligations.

Intangible assets are recognized for the first time at cost, including costs which are directly attributable to the acquisition of the intangible asset. The cost of an intangible asset is an amount equal to the cash price on the recognition date. Expenses with respect to an intangible item which was initially recognized as an expense will not be recognized as part of the cost of an intangible asset at a later date.

Intangible assets which were purchased in a business combination are recognized for the first time at fair value on the acquisition date.

In periods following initial recognition, intangible assets are presented according to cost less accumulated amortization and less accumulated impairment losses.

The Bank evaluates, regarding each of the intangible assets, whether its useful lifetime is defined or undefined. It is noted that a banking corporation which believes that it is appropriate to amortize an intangible asset for a period exceeding ten years is required to contact the Banking Supervision Department to receive pre-ruling approval.

The amortizable amount of an intangible asset with a defined useful lifetime is allocated systematically throughout its useful lifetime. The Bank performs the amortization according to the straight line method. Amortization expenses for each period are recognized in the statement of income.

Impairment of an intangible asset with a defined lifetime is evaluated upon the existence of indicators of impairment. It is necessary to evaluate whether the asset's value is higher than the non-discounted cash flows which are expected to be derived from it. If any gap exists, impairment will be recognized in the amount of the difference. In the case of a group of intangible assets to which impairment is to be attributed, a property will not be recognized at less than its fair value.

The Bank reviews the useful lifetime and the amortization method which was used at least at the end of each fiscal year. Changes are accounted for as changes in accounting estimates.

For details regarding directives issued by the Commissioner of Banks on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to intangible assets", see section D2 below.

For details regarding software development costs for self use, and the amortization thereof, see sections B.7 above.

B.9. Impairment of non-financial assets

The Bank evaluates, for each reporting date, the need to record a provision for impairment of non-monetary assets (such as buildings and equipment and intangible assets, including goodwill) when there are indicators, due to events or changes in circumstances, which indicate that its assets in the balance sheet are presented at an amount exceeding their recoverable value.

The recoverable value of an asset or cash generating unit is the higher of either the net selling price or the value in use. Value in use is the present value of the estimated future cash flows, discounted by the interest rate before tax, which are expected to arise from the use and disposal of the asset. For the purpose of the impairment test, assets which cannot be individually tested are joined together into the smallest group of income-generating assets from continuous use, which are mostly independent of other assets and groups ("Cash Generating Unit"). When the book value of the asset exceeds its recoverable value, the Bank recognizes impairment loss in the amount of the difference between the asset's book value and its recoverable value. Loss which has been recognized as stated above will be canceled only if changes have occurred in the estimates which were used in the determination of the asset's recoverable value from the date of recognition of the last impairment loss, excluding loss from impairment of goodwill which has not been canceled.

Indicators of impairment of software costs for self use -

- The software is not expected to provide a significant service.
- A change is expected to the manner or scope of use of the software, currently or in the future.
- A significant change to the software is expected.
- The expected costs in order to develop or change the software significantly exceed the original expected amount.

Note 1 - Accounting Policy (Cont.)

- Additionally, indicators have been added that the software is not expected to serve the banking corporation -
- Shortage in budgeting or expenses for the project.
- Deviations from the budget.
- Programming difficulties which are not expected to be solved on time.
- A new technology has arisen on the market which causes management not to expect to continue the current development.
- Information has been obtained indicating that the software is available on the market at a significantly lower cost than the expected cost of development.

For details regarding the impact of directives issued by the Banking Supervision Department regarding the discounting of software costs on the data as of December 31, 2014, see section G below.

B.10. Segmental reporting

An operating segment is a business line in a banking corporation which is engaged in activities from which it may generate income and bear expenses. Its results of operations are evaluated in an orderly manner by management and the Board of Directors, for the purpose of reaching decisions regarding the allocation of resources and the evaluation of its performance, and also in order to maintain separate financial information for it. The framework for reporting on the Bank's operating segments was determined in the public reporting regulations of the Commissioner of Banks.

For details regarding the Commissioner's circular regarding segmental reporting, see section D3 below.

B.11. Deferred issuance expenses

Bond issuance and distribution expenses are presented at cost, and are amortized over the repayment periods of the liabilities, in accordance with the effective interest method.

B.12. Taxes on income

Taxes on income presented in the statement of income include current and deferred taxes. Current and deferred taxes are applied to the statement of income unless the tax is due to a transaction or event which is recognized directly under equity. In these cases, the tax on income expenses are applied to equity. Current tax is the tax amount expected to be paid (or received) on taxable income during the year, calculated according to the tax rates which apply according to the law which was enacted, or effectively enacted, on the balance sheet date, and which includes changes in tax payments which are attributed to previous years.

The provision for taxes on income of the Bank and its consolidated companies which are financial institutions for value added tax purposes includes capital gains tax which is imposed on the income in accordance with the Value Added Tax Law. Value added tax which is applied to the salary in financial institutions is included in the statement of income under the item for "Payroll and associated expenses".

Deferred taxes are calculated with respect to differences in the timing of the inclusion of income and expenses between financial reporting and their recognition for income tax purposes, and due to the adjustment of non-monetary assets with respect to the difference between their adjusted value and the value which is deductible for income tax purposes. Deferred taxes are calculated according to the tax rates which are expected to apply upon usage of the reserve or realization of the tax benefit, based on the tax laws which were in effect on the balance sheet date.

Deferred taxes with respect to recognized transferred losses, if taxable income is expected to arise against which the losses can be used for unused tax purposes. Deferred tax assets with respect to transferred losses, tax benefits and temporary differences which are deductible, are recognized in the books when it is more likely than not that taxable income will arise in the future, against which it will be possible to use them, or if there are tax planning opportunities. Deferred tax assets are evaluated on each reporting date, and the attributed tax benefits are not expected to materialize, they are amortized.

The calculation of deferred taxes does not take into account taxes which would have applied in case of the realization of investments in investee companies, so long as there is the assumption of ongoing holding of such investments. The dividend distribution policy in investee companies is implemented in a way which will not cause the charging of additional tax in the Bank.

The Bank reviews, in each reporting period, the deferred tax assets. If it is not expected that taxable income will be received in sufficient amounts to enable the usage of the deferred tax assets, an amortization is performed regarding the book value of those deferred tax assets.

In accordance with the directives issued by the Commissioner of Banks, the Bank applies the accounting treatment which was determined in FIN 48 - "Accounting for Uncertainty in Income Taxes" (ASC 740-10 - Income Taxes), on the subject of uncertain tax positions vis-à-vis the tax authorities.

These positions affect deferred or current tax assets by ways of an amortization of a tax asset, deferral of recognition of tax income, or any change in the manner of realization of a deferred tax asset. In accordance with the interpretation, in the above case, the Bank applies a dual-stage approach: in the first stage, recognition in the books only of tax positions which are more likely than not to be accepted, based on their technical facts only (in accordance with the tax laws, regulatory guidelines and the conventional practice, if any). If the Bank fulfills the terms of the first stage, a deferred tax asset will be recognized cumulative amount the largest cumulative amount which is more likely than not to be recognized.

For details regarding directives issued by the Commissioner of Banks on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect taxes on income", see section E3 below.

B.13. Derivative financial instruments

In accordance with the directives issued by the Commissioner of Banks, a banking corporation is required to recognize all derivative instruments, including certain derivative instruments which are embedded in other contracts, as assets or liabilities in the balance sheet, and to measure them at fair value. The change in the fair value of a derivative instrument will be reported in the statement of income, in accordance with the designation of the derivative instrument. The change in the fair value of derivatives which hedge exposure to changes in the fair value of an asset, liability or stable engagement, will be recognized routinely in the statement of income, as will the change in fair value of the hedged item, which is attributable to that hedged risk.

Accounting for changes in the fair value of derivatives which hedge the exposure to changes in the cash flows from an asset, liability or expected transaction is dependent upon the effectiveness of the hedge relationship.

The effective part of the change in fair value of a derivative which is intended to hedge cash flows is initially reported under equity, and later, when the expected transaction has an impact on the statement of income, it is reclassified to the statement of income. The non-effective part of the change in fair value of the aforementioned designated derivative is immediately recognized in the statement of income.

The Bank engages in contracts which do not entirely meet the definition of a derivative instrument. Such contracts may include embedded derivative instruments. An embedded derivative instrument will be separated from the host contract and accounted for as a derivative instrument, upon the cumulative fulfillment of the following three conditions: the economic characteristics of the embedded derivative must not be clearly and closely associated with those of the host contract; the hybrid instrument must not be re-measured according to its fair value, in accordance with GAAP, while reporting the changes in the fair value under the statement of income at the time of their creation, and where a separate instrument with the same terms as those of the embedded instrument would have met the definition of a derivative instrument. Once an embedded derivative has been identified, it is separated from the host contract and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract. The separated embedded derivatives in the Bank are due to the provision of foreign currency-linked credit which includes a minimum limit for the linkage basis, and the raising of savings plans with identical characteristics.

Profit or loss from a derivative which was not designated as a hedging instrument is recognized under the statement of income on an ongoing basis. Transactions with derivative instruments constitute a part of the Bank's assets and liabilities management unit. The fair value of derivative instruments is presented in the balance sheet as assets with respect to derivative instruments or as other liabilities with respect to derivative instruments, as applicable, and the results from transactions with derivative instruments which are due to their recording on a fair value basis are included in the statement of income under the item for non-interest financing income.

B.14. Fair value measurement and fair value alternative

On April 28, 2011, a circular was published by the Commissioner of Banks on the subject of fair value measurements and fair value alternatives. The circular adopts the following standards, inter alia:

Fair value measurement: ASC 820-10 (FAS 157) (hereinafter: "ASC 820-10").

ASC 820-10 defines fair value and determines a consistent framework for fair value measurement by defining fair value measurement techniques regarding assets and liabilities and determining a fair value hierarchy and detailed instructions for implementation.

The circular distinguishes between two types of data which are used in the determination of fair value:

Observable inputs represent data which are observable on the market and which are received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. These input types create a fair value hierarchy, as specified below:

Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.

Level 2 inputs: quoted prices for similar assets or liabilities in active markets; Quoted prices for identical assets or liabilities in inactive markets; Prices which are derived from valuation models, in which all significant inputs are observable or supported by observable market inputs.

Level 3 inputs: unobservable inputs for the asset or liability which are due to valuation models where one or more of their significant inputs are unobservable.

Additionally, ASC 820-10 expands the disclosure requirements regarding fair value measurement. The implementation of the principles specified in ASC 820-10 requires discontinuation of the use of the blockage factor in the calculation of fair value, and replaces the guidelines which prohibit the recognition of day one profits and which require a determination of the fair value of derivative instruments which are not traded on an active market according to the transaction price. Additionally, ASC820-10 requires the banking corporation to reflect the credit risk and the Bank's other risks in the measurement of the debt's fair value, including derivatives, which were issued by it and which are measured at fair value.

The banking corporation is required to re-evaluate the valuation methods which are applied by it to fair value measurement, in consideration of the circumstances which are relevant to the various transactions, including the prices of the last transactions on the market, indicative prices of valuation services and back-testing results of similar transaction types.

B.15. Employee rights

Post-retirement benefits - severance pay and other benefits (hereinafter: "Severance Pay") - defined benefit plans

Severance pay benefits constitute a part of the remuneration which is paid to employees for their services. In a defined benefit pension plan, the defined benefit guarantees to the provider, in addition to their routine salary, severance pay as well. In general, the amount of the benefit which will be paid depends on certain future events which are included in the plan benefit formula, which frequently include the duration of the employee's life, or the lives of their survivors, the number of years of service provided by the employee, and the employee's remuneration during the years immediately before retirement or conclusion of employment.

For this purpose, profit or loss is the amount of (1) the difference between the actual return on plan assets and the expected returns on plan assets, and (2) the amortization of net profit or loss which were recognized under accumulated other comprehensive income.

The Bank calculates the expected long term rate of return on plan assets using the historical rates of return over a long time period, in a portfolio with a similar composition of assets. For this purpose, the Bank uses available market data regarding each of the significant categories of assets in the portfolio, and weighs them according to the composition of plan assets.

The liability with respect to expected benefit reflects the present actuarial value of all benefits which are attributed to the service provided by the employee before the balance sheet date. The measurement of this liability will be based on actuarial assumptions as appropriate for the Bank's balance sheet date (for example, turnover, mortality, discount rate, etc.) and data from the population census as of the present date.

If the liability with respect to an expected benefit exceeds the fair value of the plan assets, the Bank recognizes in the balance sheet a liability which is equal to the non-financed liability with respect to an expected benefit. If the fair value of the plan assets exceeds the liability with respect to an expected benefit, the Bank recognizes, in the balance sheet, an asset which is equal to the liability which is over-financed with respect to the expected benefit.

The Bank evaluates its assumptions on a quarterly basis, and updates theses assumptions accordingly.

Change in the value of a liability with respect to an expected benefit or of the plan assets, due to the fact that actual experience is different from the estimate, or due to a change in the actuarial assumption (hereinafter: "Actuarial Profit or Loss"). Actuarial profits or losses are not recognized according to the cost of the net severance pay for the period on the date of their materialization, but rather are recognized under other comprehensive income. In subsequent periods, these profits or losses are subsequently recognized in the statement of income as a component of the net pension cost for the period, according to the straight line method, over the remaining average service period of the employees who are expected to receive benefits according to the plan. If a situation exists wherein all or nearly all of the plan participants are inactive, the remaining average life expectancy of the inactive employees will serve instead of the remaining average service period.

The discount rate with respect to employee benefits is calculated based on the yields of government bonds in Israel, plus the average margin of corporate bonds with a rating of AA (international) or higher as of the reporting date. Due to practical considerations, the margin was established according to the difference between the yield to maturity rates, by repayment periods, on corporate bonds with a rating of AA or higher in the United States, and yield to maturity rates for those repayment periods, on US government bonds, as of the reporting date.

The Bank adopts the directives issued by the Banking Supervision Department regarding internal control over the financial reporting process regarding employee rights, including regarding an evaluation of a "material liability" to provide to its employees benefits with respect to increased severance pay and/or early pension.

Defined deposit plans - post-retirement benefits

A defined deposit plan is a plan which provides post-retirement benefits in consideration of services which were provided, provides a personal account for each plan participant, and defines the method for determination of the deposits to the employee's account, instead of determining the amount of benefits which the employee will receive. In a post-retirement defined deposit plan, the benefits which a plan participant will receive are dependent only on the amount deposited in the plan participant's account, on the returns which are accrued on the investments of those deposits, and on the realization of benefits of other participants in the plan, which may be allocated to the account of that participant.

If deposits for the defined plan to the account of a certain person are required with respect to periods during which that person provides services, the net pension cost or the other post-retirement benefit cost, net, for the period, will be the required deposit for that period. If a plan requires deposits for periods after the person has retired or concluded employment, the estimated cost will be accrued during the employee's period of service.

The Bank's liabilities to pay severance pay in accordance with section 14 of the Severance Pay Law are treated as a defined deposit plan.

Holiday gift

The Bank recognizes the non-discounted amount of the current benefit on the service provision date. Additionally, the Bank accrues the liability throughout the relevant period which was determined in accordance with principles of other post-retirement benefits.

Paid absences

Vacation

The Bank accrues the liability through the relevant period which was determined. For the purpose of calculating the liability, actuarial assumptions and discount rates are not taken into account. All components of the benefit cost for the period are immediately applied to the statement of income. For the purpose of determining the discount rate and the allocation method for the service cost periods, the Bank applies the principles of the defined benefit pension plans, with the required adjustments.

Sick days

The Bank does not accrue liabilities with respect to sick days.

Other long term benefits to active employees - jubilee bonuses.

The Bank accrues the liability over the period granting eligibility for the benefit. For the purpose of calculating the liability with respect to these benefits, actuarial assumptions and discount rates are taken into account. All components of the benefit cost for the period, including actuarial profit and loss, are immediately applied to the statement of income.

Guidelines and clarifications regarding increasing the internal control over financial reporting on the subject of employee rights

On March 27, 2011, guidelines were published by the Banking Supervision Department, regarding increasing internal control over financial reporting on the subject of employee rights. The guidelines establish several clarifications regarding the evaluation of a liability with respect to employee rights, and guidelines regarding the internal control over the financial reporting process on the subject of employee rights, including a demand to involve an authorized actuary, to identify and classify liabilities with respect to employee rights, the existence of internal controls for the purpose of relying on and validating the actuary's evaluation, as well as certain disclosure requirements.

The guideline determines, inter alia, that a banking corporation which expects to pay to its employees, upon their departure, benefits beyond the contractual terms, will take into account the number of employees who are expected to resign, and the benefits which the Bank expects to be required to pay for the benefits beyond the contractual terms, upon early retirement of employees.

For details regarding the impact of directives issued by the Banking Supervision Department on the subject of the adoption of US GAAP regarding employee rights on the data as of December 31, 2014, see section G below.

B.16. Contingent liabilities

In accordance with directives issued by the Commissioner of Banks, the provisions of ASC 450 were adopted, as were its accompanying directives, regarding the accounting treatment of pending legal claims, excluding in certain rare cases, such as class actions regarding which the Bank and its legal counsel have no possibility to estimate their results. The estimate of bank management, which is based on the opinion of its legal counsel, regarding the probability of the realization of the exposure to risk in claims, is determined based on the following three areas of probability:

1. Probable risk - where the probability of the realization of the exposure to risks is above 70%. With respect to claims included in this risk group, appropriate provisions were included in the financial statements.
2. Possible risk - where the probability of the realization of the exposure to risks is between 20% and 70%. With respect to claims included in this risk group, no provisions were included in the financial statements; only disclosure was provided.
3. Low risk - where the probability of the realization of the exposure to risks is less than or equal to 20%. With respect to claims included in this risk group, no provisions were included in the financial statements, and no disclosure was provided.

   In case of a probable exposure, the provision is included in the financial statements in the amount of the entire exposure, as estimated by bank management. In case of a possible exposure, a provision is not included in the financial statements, but rather, only disclosure is provided for the amount of the exposure. In case of improbable exposure, there is no need to perform provisions and/or disclosure. With respect to claims to which the exposure is low, although the maximum liability or possible loss could place in doubt the Bank's continued operation, disclosure is provided.

B.17. Share-based payment transactions

The Bank recognizes shared-based payment transactions in accordance with the provisions of IFRS 2, as adopted by the Commissioner of Banks. Benefits with respect to shared-based payment transactions which are settled using capital instruments, are measured on the provision date of the benefit (the allocation date), based on the conventional options pricing model. The value of the benefit is charged on an ongoing basis to expenses against capital reserves, over the vesting period.

Transaction costs settled in cash are measured at fair value on the date of the allocation, using the acceptable options pricing model. For additional details, see Note 24. Fair value is recognized as an expense over the vesting period and, in parallel, a liability is recognized. The liability is remeasured for each reporting period, in accordance with its fair value until its settlement, where changes in the fair value are applied to the statement of income.

When the company implements changes to the terms of an allocation which is settled with capital instruments, an additional expense is recognized, in addition to the original expense which was calculated with respect to each change that increases the total fair value of the remuneration which is provided or which benefits the employee / other service provider, according to the fair value on the date of the change.

When changes are implemented to a shared-based payment plan, the banking corporation recognizes the effects of changes which increase the plan's total fair value during the remaining vesting period, and additionally, the effects of changes which modify the characteristics of the plan from liability-based to capital-based, or vice versa.

Note 1 - Accounting Policy (Cont.)

B.18. Earnings per share

Earnings per share are calculated according to a distribution of the net profit attributed to shareholders in the company, by the number of weighted ordinary shares in the period. Basic earnings per share include only shares which actually exist during the period.

Potential ordinary shares (convertible securities, such as convertible bonds, warants and options to employees) are only included in the calculation of diluted earnings per share if their impact dilutes earnings per share in a manner whereby their conversion reduces earnings per share or increases loss per share from continuing operations. Additionally, potential ordinary shares which were converted during the period are included under diluted earnings per share only until the conversion date, and from that date onwards, are included under basic earnings per share.

C. Statement of cash flows

The report was prepared in accordance with directives issued by the Commissioner of Banks and International Accounting Standard (IAS) 7 regarding the statement of cash flows. Cash flows from activities involving assets and liabilities are presented net, excluding operations involving housing credit, movement in non-monetary items, non-marketable securities, and bonds and deferred liability notes. Cash also includes deposits in banks whose original period from their deposit date was up to three months.

D. Initial application of accounting standards, updates to accounting standards and directives issued by the Banking Supervision Department:

Beginning with reporting periods commencing on January 1, 2016, the Bank initially applies accounting standards and directives issued by the Banking Supervision Department in the manner specified below:

1. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States with respect to business combinations, consolidation of financial statements and investments in investee companies";
2. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to intangible assets";
3. Supervised operating segments and reports regarding operating segments, in accordance with management's approach;
4. Directives issued by the Commissioner of Banks regarding the calculation of the collective provision for credit losses;

Presented below is a description of the changes which were implemented to the accounting policy, in these consolidated annual financial statements, and the impact of their initial application:

1. Directives issued by the Banking Supervision Department on the subject of "Reporting by corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States with respect to business combinations, consolidation of financial statements and investments in investee companies"

Note 1 - Accounting Policy (Cont.)

On June 10, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment with respect to business combinations, consolidation of financial statements and investments in investee companies will be treated according to generally accepted accounting principles for banks in the United States.

Following the change in provisions, the following was determined:

1. A banking corporation is required to apply generally accepted accounting principles for banks in the United States on the subject of business combinations and the consolidation of financial statements, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 805 regarding "Business combinations", and in the provisions of subject 810 in the codification regarding "Consolidation". Additionally, banking corporations must apply the provisions of issue 350-20, on the subject of "Intangible assets - goodwill and other assets", regarding the accounting treatment of the impairment of goodwill which was purchased in a business combination.
2. A banking corporation is required to adopt generally accepted accounting principles for banks in the United States on the subject of investments in investee companies, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 323 in the codification regarding "Investments - equity method and joint ventures".
3. A transitional provision was canceled which allowed non-performance of adjustments to the accounting policy, which pertains to issues at the core of the banking business, which was applied by a real associate company, which are required in order to ensure that the accounting policy applied by the associate company on these subjects corresponds to that applied by the banking corporation. In its place, a transitional provision was added which allows the banking corporation not to perform adjustments to the associate company which is applied by a real associate company which prepares its financial statements in accordance with IFRS.

It was further clarified that the treatment which was determined with respect to non-current assets which are held for sale, in accordance with IFRS 5, will not apply to investments in associate companies.

The adoption date of the directive was set as January 1, 2016.

At the time of initial application, a banking corporation will act in accordance with the transitional provisions which were determined on those matters in generally accepted accounting principles in the United States, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects. The directives regarding "push down accounting" applies to business combinations which are performed beginning on January 1, 2016.

The Bank is adopting the directives through retrospective adoption. The implementation of the circular had no significant impact on the Bank.

2. Directives issued by the Commissioner of Banks on the subject of "Reporting by corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to intangible assets"

On October 22, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment on the subject of intangible assets will be in accordance with generally accepted accounting principles for banks in the United States on this subject, including, inter alia, the principles regarding presentation, measurement and disclosure which were determined in the provisions of subject 350 in the codification, regarding "Intangible assets - goodwill and others ".

In this regard, the accounting treatment of goodwill, including impairment tests thereof, was updated in accordance with the circular dated February 8, 2015, on the subject of "Reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States on the subject of business combinations and consolidation of financial statements".

The adoption date of the directive was set as January 1, 2016.

At the time of initial application, banking corporations will act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

The Bank is adopting the directives through retrospective adoption. The implementation of the circular had no significant impact on the Bank.

3. Supervised operating segments and reports regarding operating segments, in accordance with management's approach.

On November 3, 2014, a circular was published on the subject of reporting regarding operating segments, which updated the public reporting regulations on all matters pertaining to the reporting requirement regarding supervised operating segments, and includes, inter alia, changes to certain definitions and instructions, according to which the banks will be required to classify customers into supervised segments, and to update their reports in accordance with the uniform definitions which were determined by the Banking Supervision Department, which are primarily based on the classification of customers in accordance with their turnover.

In addition to the uniform reporting regarding supervised operating segments, it was determined in the circular that the disclosure regarding "operating segments in accordance with the approach of management" will be given in accordance with generally accepted accounting principles for banks in the United States regarding operating segments (which are included in ASC 280), insofar as a material difference exists between the approach of management and the reporting segments in accordance with the directives of the Banking Supervision Department. The operating segments in accordance with the approach of management are not significantly different from the operating segments in accordance with the reporting guidelines.

An operating segment in accordance with the approach of management under ASC-280-10 is a segment in the Bank which deals with activities from which it may generate income and bear expenses, which meet the criteria specified below:

- Its results of operations are evaluated in an orderly manner by the chief decision makers in the Bank, for the purpose of reaching decisions regarding the resource allocation and performance assessment;
- separate financial information exists regarding it; and
- its operations and results are material.

The new rules will be applied gradually, as specified below:

- Beginning with the financial statements for the first quarter of 2016, full disclosure is required by supervised segments which include segments such as households, private banking, micro and small businesses, medium and large businesses and institutional entities, excluding the separate disclosure regarding the financial management segment. The comparative figures will be adjusted retrospectively. The reports for 2016 can include presentation of comparative figures for one year one year, with reference to the note regarding supervised operating segments. For the purpose of presenting the comparative figures, it is possible to rely on the classification of customers into supervised operating segments, as of January 1, 2016.
- Beginning with the reports for the first quarter of 2017, the Bank is applying the provisions of the circular in their entirety.

The approach of management to the segmentation of the Bank's activities is not significantly different from the approach to the segmentation of the supervised segments, as specified above.

The implementation of the new directives had no impact, except for the manner of presentation and disclosure. Note 29 was adjusted, and includes the required disclosure.

4. Directives issued by the Commissioner of Banks regarding the calculation of the collective provision for credit losses

In July 2016, the Commissioner of Banks instructed the banking corporations to include the rate of write-offs in 2011, as an average and in the range of the rate of write-offs which serves as the basis for the determination of the collective provision with respect to credit to private individuals, in the quarterly and annual financial statements which are issued to the public, and in its reports to the Banking Supervision Department on the matter. As a result, the calculation of the collective provision in 2016 will be based on an average rate of past write-offs in the range of the last 6 years, and in 2017 will be based on an average rate of past write-offs in the range of the last 7 years, as of that date. The initial adoption date of the directive was set as the financial statements for the second quarter of 2016.

Following the directive, the Bank updated the method used to calculate the collective provision for credit losses.

The impact of the adoption as of December 31, 2016 amounted to a reduction of the provision in the amount of NIS 3.7 million.

E. New accounting standards and directives issued by the Commissioner of Banks, in the period prior to their application:

1. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States".

On January 27, 2014, the Commissioner of Banks distributed a draft on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States.

From the date of the transition to adoption of full reporting in accordance with generally accepted accounting principles in the United States, the banking corporation will be required to update the accounting treatment on these subjects on an ongoing basis, in accordance with the transitional provisions regarding new updates to generally accepted accounting principles in the United States, which will be published on these subjects, and in accordance with the clarifications which will be issued by the Banking Supervision Department.

On March 21, 2016, the Commissioner of Banks published a circular which determined the accounting treatment of banking corporations on the following issues: Issues involving foreign currency, accounting policies, changes in accounting estimates and errors and events after the balance sheet date, will be treated in accordance with generally accepted accounting principles for banks in the United States.

The principal components of the amendments to the directives are as follows:

1. A banking corporation is required to apply the generally accepted accounting principles for banks in the United States with respect to the accounting treatment of reports of representatives or associate companies in hyper-inflationary economies, linkage to foreign currency, foreign currency, and the translation of financial statements of foreign representations, as presented in subject 830 of the codification, on the subject of "Issues involving foreign currency".
2. A banking corporation is required to apply the generally accepted accounting principles for banks in the United States with respect to accounting policies, changes in accounting estimates and errors, including issue 250 in the codification, on the subject of "Changes to the accounting policy and correction of errors".
3. A banking corporation is required to apply the generally accepted accounting principles for banks in the United States with respect to events after the balance sheet date, in accordance with issue 855-10 of the codification, on the subject of "Events after the balance sheet date".

The provisions of this circular are being applied from January 1, 2017 and thereafter.

At the time of initial application, banking corporations act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

In its implementation of the guidelines of subject 830 of the codification, on the subject of "Foreign currency", in reporting periods until January 1, 2019, a banking corporation may not include the foreign currency differences with respect to available-for-sale bonds as part of the adjustments to fair value of those bonds, but rather, will continue treating them as required under the public reporting regulations before the adoption of this subject.

The Bank is evaluating the expected impact of the adoption of the principles on the financial statements, and the implementation of the circular is to have any significant impact on the Bank.

On October 13, 2016, the Commissioner of Banks published a circular on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States", which adjusted the accounting treatment for various subjects to the generally accepted accounting principles for banks in the United States.

Presented below are main amendments to the directives:

A. Taxes on income - see reference in section E3 below.

B. Non-current assets held for sale and discontinued operations - a banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to discontinued operations, in accordance with subject 205-20 of the codification, on the subject of "Discontinued operations". Therefore, International Financial Reporting Standard 5, regarding "non-current assets held for sale and discontinued operations", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect. It is further clarified that non-current assets which are held for sale will be accounted within the framework of subject 360 of the codification, on the subject of "Property, plant and equipment".

C. Property, plant and equipment, impairment of property, plant and equipment, and investment property - a banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to property, plant and equipment, as presented in subject 360 of the codification, on the subject of "Property, plant and equipment". Therefore, International Accounting Standard 16, "Fixed Assets", and International Accounting Standard 40, "Investment Property", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect. It is hereby clarified that a banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to impairment of property, plant and equipment, as determined in subject 360-10 of the codification, on the subject of "Property, plant and equipment". Therefore, International Accounting Standard 36, regarding "Impairment of Assets", as adopted in the public reporting regulations, will not be adopted beginning from the date of this circular's entry into effect.

D. Earnings per share - a banking corporation is required to adopt the generally accepted accounting principles for banks in the United States with respect to earnings per share, in accordance with subject 260 of the codification, on the subject of "Earnings per share". Therefore, International Accounting Standard 33, on the subject of "Earnings per Share", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect.

E. Statement of cash flows - A banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to the statement of cash flows in accordance with subject 230-10 of the codification, on the subject of "Statements of cash flows". Therefore, International Accounting Standard 7, on the subject of "Statements of Cash Flows", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect.

F. Interim reporting - A banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to interim reporting in accordance with subject 270 of the codification, on the subject of "Interim financial reporting". Therefore, International Accounting Standard 34, on the subject of "Interim Financial Reporting", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect.

G. Discounting of interest - A banking corporation is required to adopt the generally accepted accounting principles for banks in the United States which pertain to the discounting of interest costs in accordance with subject 835-20 of the codification, on the subject of "Discounting of interest". Therefore, International Accounting Standard 23, on the subject of "Borrowing Costs", as adopted in the public reporting regulations, will not be adopted from the date of this circular's entry into effect.

H. Guarantees - A banking corporation is required to adopt generally accepted accounting principles for banks in the United States with respect to the measurement and disclosure of guarantees, in accordance with subject 460 of the codification, on the subject of "Guarantees".

The provisions of this circular will apply beginning on January 1, 2018 and thereafter, and will include a retrospective correction of comparative figures, if required.

The Bank is preparing for the implementation of directive, and at this stage, it is not possible to estimate the effects due to the implementation of the circular.

2. Directives issued by the Commissioner of Banks on the subject of "Revenue from contracts with customers "

On January 11, 2015, the Commissioner of Banks published a circular which included amendments to the public reporting regulations on the subject of the adoption of an update to the accounting principles on the subject of "Revenue from contracts with customers". The amendments were intended to adjust the public reporting regulations to US GAAP on the subject of "revenue from contracts with customers".

The standard determines that income is to be recognized through the implementation of a five stage model, which includes, inter alia, rules for the identification of contracts with customers and for the determination of the transaction price, rules defining the manner by which the contract should be separated into its various components, and the manner in which the total transaction price should be separately attributed to each identified component.

Additionally, in accordance with the standard's provisions, income is to be recognized separately with respect to each identified component, in accordance with the rules provided in the standard regarding the timing of the asset's recognition - on a specific date, or over time.

In accordance with transitional provisions specified in the circular, upon initial application, it is possible to choose between the option of retrospective adoption by restatement of comparative figures, or the option of retrospective adoption by recording of the cumulative effect of the standard's initial application, while charging the cumulative effect which will be recognized on the date of initial adoption to equity.

The new standard does not apply, inter alia, to financial instruments and contractual rights or obligations which fall under the application of Chapter 310 of the codification. Specifically, the standard's provisions do not apply to the accounting treatment of interest income and expenses and non-interest financing income.

On February 10, 2016, the Commissioner of Banks published a circular in which it was determined that the amendments to the public reporting regulations will be applied for the first time beginning on January 1, 2018.

The Bank is evaluating the expected impact of the adoption of the rules on the financial reports, but at this stage, it is not possible to estimate the impact.

3. Directives issued by the Banking Supervision Department on the subject of "Reporting by corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to taxes on income".

On October 22, 2015, the Commissioner of Banks published a circular which determined that the accounting treatment on the subject of taxes on income will be treated in accordance with generally accepted accounting principles for banks in the United States on this subject, including, inter alia, the principles regarding the presentation, measurement and disclosure which were determined in the provisions of subject 740 in the codification, regarding "Taxes on income", and in subject 830-740 in the codification, regarding "Foreign currency issues - taxes on income ".

The provisions of this circular have been applied since January 1, 2017 and thereafter.

At the time of initial application, banking corporations will act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of comparative figures, if required with respect to these subjects.

A banking corporation is not required to include, in its reports for 2017, disclosure regarding unrecognized tax benefits, as required in accordance with section 740-10-50-15D and 740-10-50-15A of the codification.

On October 13, 2016, the Commissioner of Banks published a circular a circular on the subject of "Reporting by banking corporations and credit card companies in Israel in accordance with generally accepted accounting principles in the United States", which added certain clarifications on the subject of reporting regarding taxes on income in accordance with US principles. within the framework of this circular, the note on the subject of the "provision for taxes on income" was updated, and several matters were clarified in the public reporting regulations, as follows:

- Interest income and expenses with respect to taxes on income will be classified as "taxes on income".
- Fines to tax authorities will be classified under the item for "taxes on income".
- A law will be considered as having been "enacted" only upon its publication in the Official Gazette.
- There is no requirement to include a note presenting data based on nominal historical figures for tax purposes.

Notwithstanding the provisions of the circular issued by the Commissioner of Banks on October 22, 2015:

- The new provisions are being adopted from January 1, 2017 and thereafter. Temporary differences with respect to previous periods will continue being accounted in accordance with the provisions which applied until December 31, 2016.
- Comparative figures are to be reclassified in order to correspond to the presentation method under the new provisions.

The Bank is preparing for the implementation of the directive. The implementation of the circular is not expected to have a significant impact on the Bank.

4. Directives issued by the Commissioner of Banks on the subject of "Capital requirements with respect to exposures to principal parties"

On October 22, 2015, the Commissioner of Banks published a circular which updated Proper Banking Management Directives 203 and 204, in connection with capital requirements with respect to exposures of banks to principal counterparties. The above included the establishment, in Directives 203 and 204, of a limit on the loan total, in the amount of NIS 5 million, which allows reduced risk weight in accordance with section 72 of Proper Banking Management Directive 203, on the subject of debts when securing a residential property.

The principal components of the amendments to the directives are as follows:

A. Annex C to Directive 203 - treatment of counterparty credit risk - the annex was updated, and now includes a detailed framework regarding capital requirements with respect to exposures of banking corporations to principal counterparties. The directives distinguish between a main unqualified counterparty and a qualified principal counterparty. Reduced capital requirements were recently established.

B. Various relevant terms were added to the directives, including principal counterparty, qualified principal counterparty, clearing house member, customer, primary security, variable security, trading exposure and transfer to risk reserve.

C. The new directives will apply to exposures to principal counterparties which are caused due to OTC derivatives, marketable derivative transactions on the stock exchange, and securities financing transactions.

D. Sections were added which regulate the method used to calculate risk assets and capital requirements with respect to exposures to qualified principal counterparties. The sections, inter alia, regulate the following types of exposure:

   1. Exposures of a banking corporation which is a clearing house member to principal counterparties. In general, a risk weight of 2% should be attributed to these exposures (as compared with an exposure value of zero prior to the amendment).
   2. Exposures of a banking corporation to customers who are active on the stock exchange. According to the amendment, the capital requirements with respect to these exposures should be calculated as if it were a two-party transaction, including allocation of capital with respect to CVA risk. The calculation method which was applied until now - calculation according to stock exchange rules - will be canceled.

3. Exposures of a banking corporation to customers who operate through a clearing house member.
4. Transfer by a banking corporation which is a clearing house member to the risk reserve.
5. Securities deposited by a banking corporation with a clearing house member or principal counterparty.

E. Sections were added which regulate the method used to calculate risk assets and capital requirements with respect to exposures to non-qualified principal counterparties. These sections determine that exposures to non-qualified principal counterparties will be weighted according to the weight of the relevant risk to the counterparty, while transfers to the risk reserve will be weighted at 1,250%.

The provisions of this circular will apply beginning on January 1, 2017.

Until June 30, 2017, the Tel Aviv Stock Exchange can be considered a qualified principal counterparty.

The Bank is preparing to implement the directive.

On December 28, 2016, the Commissioner of Banks issued a letter on the subject of "Capital requirements with respect to exposures to principal counterparties". In this letter, approval was given for the continued calculation of the exposure amount with respect to customers who are active in the Maof stock exchange, in accordance with the scenario approach, until the adoption in Israel of the new approach to implementation (the SA-CCR approach).

5. New American standard on the subject of "measurement of financial instruments"

On January 5, 2016, the Financial Accounting Standards Board (FASB) published a new standard on the subject of the accounting treatment of investments in stocks which constitute financial instruments with respect to investments in capital instruments with available fair value, where the changes in fair value of such instruments will be recognized in the statement of income, and recognition under other comprehensive income will not be permitted. With respect to investments in capital instruments which do not have available fair value, a selection will be possible between measurement of the investment at fair value, as stated above, and measurement of the investment at cost, while implementing adjustments to changes in observable prices and impairment. Under the two alternatives, changes in fair value will be recognized in the statement of income. With respect to financial liabilities in which the fair value alternative was chosen, with respect to financial liabilities (in accordance with ASC 825), the changes in fair value which are due to the credit risk which is specific to the instrument will be recognized under other comprehensive income.

The adoption of the new standard with respect to public companies will apply in annual periods commencing after December 15, 2017, including the interim periods in those annual periods. The standard will be adopted retrospectively, including recording of the cumulative effect against retained earnings at the beginning of the reporting period when the standard is initially applied.

The Bank is preparing for the implementation of directive, and at this stage, it is not possible to estimate the effects due to the implementation of the circular.

Note 1 - Accounting Policy (Cont.)

6. New American standard on the subject of "Leases"

On February 25, 2016, the Financial Accounting Standards Board (the "FASB") published a new standard on the subject of "Leases" (ASU 2016-02).

The new standard signifies a new era, in which lessees will recognize, in the balance sheet, any lease whose period exceeds 12 months, independent of the classification of the lease.

Therefore, in accordance with the new standard, the evaluation regarding whether a lease will be recognized in the balance sheet or off the balance sheet depends on the preliminary question of whether it really constitutes a lease arrangement, and not on the question involving the classification of the lease (as operational or financial). The tests regarding the identification of the lease according to the new standard are not identical to the terms which currently exist in U.S. GAAP. From a resultant perspective, a difference is not expected relative to the current situation, due to the method of distribution of rental expenses and the amortization of the balance sheet items.

Additionally, the new standard replaces the current provisions for sale - leaseback transactions, and establishes a new model which refers both to the lessor and to the lessee.

In accordance with the update, the new U.S. principles are to be adopted beginning with interim periods and annual periods beginning after December 15, 2018.

7. Directives issued by the Commissioner of Banks on the subject of "restructuring of troubled debt";

On May 22, 2016, the Commissioner of Banks published a circular which updated the public reporting regulations on the subject of restructuring of troubled debt. The circular updates the public reporting regulations in accordance with update no. 2011-02 to the codification, as published by the FASB, and in light of the new guidelines of regulatory authorities in the United States.

Accordingly, the following provisions were amended, inter alia:

A. Documentation requirements were added with respect to the identification of the potential restructuring of troubled debts, and additionally, guidelines were added with respect to the accounting treatment upon restructuring of troubled debts, such as criteria for the provision of concessions, the interest rate after restructuring, assessment regarding whether the restructuring results in a negligible delay in payment, determination regarding whether a debtor is subject to financial difficulties, and performance of a credit analysis with respect to debts which were restructured.

B. Guidelines were added on the subject of debts which are undergoing a subsequent restructuring process. In general, troubled debt which has been restructured will continue being measured and being classified as impaired debt until it has been repaid in full. However, it was determined that, in certain circumstances, when troubled debt has been restructured, and the banking corporation and the debtor subsequently entered into an additional restructuring agreement (hereinafter: "Subsequent Restructuring"), the banking corporation is no longer required to classify the debt as restructured debt, subject to the fulfillment the following two conditions:

   1. The debtor is no longer subject to financial difficulties on the date of the subsequent restructuring.

2. In accordance with the terms of the subsequent restructuring, the banking corporation has not granted any concession to the debtor.

In order to meet the foregoing two conditions, inter alia, it is necessary for the subsequent restructuring to be implemented under market conditions, including:

1. A contractual interest rate which is no lower than the interest rate for new loans with similar credit risk characteristics; and -
2. Other terms of the contract, which are no less beneficial towards the banking corporation relative to the temrs which the banking corporation would have offered, in new loans, as stated above, with similar credit risk characteristics.

C. Disclosure was added to the Board of Directors' Report regarding the movement in impaired debts, which presented the amounts which were reclassified from impaired status to non-impaired status, due to the subsequent restructuring process.

D. An annex to the provisions was added which helps to determine, in ordinary situations, whether a debt restructuring constitutes a troubled debt restructuring.

E. The amendments incorporate in the provisions the amendments which were determined in the update on the subject of "Troubled Debt 310-40, Restructuring by Creditors", in the codification of the generally accepted accounting principles for banks in the United States, as well as relevant guidelines of the federal banking oversight authorities in the United States on the subject.

F. Cases were determined in which it is presumed that a renewal of subordinated debt constitutes a restructuring of troubled debt.

G. It was determined that when a debt which was not specifically considered in the past as impaired debt is restructured, and it has been determined that it meets the definition of restructuring of troubled debt, without a partial accounting write off, generally, it is not appropriate to reduce the estimated provision for credit losses on the date of the restructuring as a result of the change in the method used to measured the impairment, from measurement on a collective basis to measurement on an individual basis.

The provisions of this circular will be applied to restructuring processes which will be performed or renewed beginning on December 31, 2016. Early adoption is possible.

A banking corporation is entitled to choose one of the following methods to apply the instructions on the subject of subsequent restructuring:

1. Prospective adoption.
2. Adoption with respect to debts which have not yet been repaid as of December 31, 2016, to which a subsequent restructuring process was applied, and where such debts meet the conditions required according to the guidelines on the date of the restructuring. Updates to comparative figures are not required.

The adoption of this directive had no significant impact on the Bank's inventory of restructured debts.

Note 1 - Accounting Policy (Cont.)

F. Restatement:

On February 11, 2016, due to the significant changes in regulatory requirements in connection with the capital adequacy ratio, and after the receipt of approval from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio, on the acquisition date. As a result of this sale, the Bank recorded profit after tax in the amount of approximately NIS 21 million in the first quarter of 2016. The impact of the restatement on the annual financial statements as of December 31, 2014 and for the year then ended, which were published in the past, is presented below:

Reported amounts in millions of NIS

	2014		
	Before impact of the amendment *	**Impact of the amendment**	**After the impact of the amendment**
Balance sheet items			
Bonds held to maturity	207.4	(207.4)	-
Available for sale securities	407.0	229.4	636.4
Item for securities	880.4	22.0	902.4
Other assets (taxes)	152.6	(8.3)	144.3
Equity	736.7	13.7	750.4
Tier 1 capital adequacy ratio	9.6%	0.2%	9.8%
Total capital adequacy ratio	14.3%	0.1%	14.4%
Other comprehensive income items			
Adjustments with respect to the presentation of available for sale securities at fair value	(1.0)	22.0	21.0
Attributable tax impact	0.6	(8.3)	(7.7)
Total comprehensive income	63.9	13.7	77.6
Statement of changes in equity			
Other comprehensive income, net, after tax impact	(1.1)	13.7	12.6
Cash flows from investing activities			
Acquisition of bonds held to maturity	(200.6)	200.6	-
Acquisition of available for sale securities	(2,555.6)	(200.6)	(2,756.2)

* The data before the effect of the amendment include the restatement with respect to the retrospective adoption of generally accepted accounting principles in the United States on the subject of employee rights, and due to the retrospective adoption of directives issued by the Banking Supervision Department on the subject of the discounting of software costs. For details, see Note 1.G.

G. Retrospective adoption of the discounting of software costs and employee rights:

1. Directives issued by the Banking Supervision Department on the subject of the discounting of software costs;

   In light of the accounting complexity associated with the software costs discounting process, and in light of the materiality of the amount of software costs which were discounted, the Commissioner of Banks established, in the second quarter of 2015, guidelines regarding the discounting of software costs.

   A change in the accounting policy, in accordance with the aforementioned guidelines, was applied beginning with the financial statements as of June 30, 2015, by way of restatement.

2. Directives issued by the Banking Supervision Department on the subject of the adoption of American accounting principles regarding employee rights

   On April 9, 2014, the Commissioner of Banks published a circular which included amendments to the public reporting requirements, which were intended to update the requirements regarding the recognition, measurement and disclosure of employee benefits, in accordance with generally accepted accounting principles in the USA.

   Additionally, on January 11, 2015, a circular was published which amended the public reporting regulations on the subject of employee rights, including disclosure requirements and transitional provisions.

   The adoption date of the directive was set as January 1, 2015, and included a retrospective amendment to the comparative figures for periods beginning on January 1, 2013 and thereafter.

Reported amounts in millions of NIS

	As of December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption *
Balance sheet items				
Buildings and equipment	160.8	-	(11.1)	149.7
Other assets	149.6	0.1	2.9	152.9
Other liabilities (liabilities with respect to employees and deferred credit balances)	182.6	0.4	-	183.0
Surplus	518.7	(1.5)	(8.2)	509.0
Accumulated other comprehensive income	(0.3)	1.2	-	0.9
Total capital	745.2	(0.3)	(8.2)	736.7
Ratio of total capital to risk components	14.4%	-	(0.1%)	14.3%
Ratio of Tier 1 capital to risk components	9.7%	-	(0.1%)	9.6%

* Data after the retrospective adoption do not include the restatement which reflects an error in the classification of bonds from the held to maturity portfolio to the available for sale portfolio as of the acquisition date, as specified below in Note 1.F.

Reported amounts in millions of NIS

Impact of the retrospective adoption

	For the year ended December 31, 2014			
	In accordance with the previous reporting provisions	Impact of the retrospective adoption with respect to employee rights	Impact of the retrospective adoption with respect to the discounting of software costs	After the retrospective adoption *
Profit and Loss				
Payroll and associated expenses	(167.7)	(1.7)	(1.8)	(171.2)
Maintenance and depreciation of buildings and equipment	(72.7)	-	1.5	(71.2)
Profit before taxes	96.1	(1.7)	(0.3)	94.1
Provision for taxes on income	(29.8)	0.6	0.1	(29.1)
Net profit after taxes	66.3	(1.1)	(0.2)	65.0
Basic and diluted earnings per share	0.94	(0.02)	-	0.92
Other comprehensive income items				
Net profit after taxes	66.3	(1.1)	(0.2)	65.0
Adjustments of liabilities with respect to employee benefits	-	(0.7)	-	(0.7)
Attributable tax impact	0.4	0.2	-	(0.6)*
Total comprehensive income	65.7	(1.6)	(0.2)	63.9*
Items of the cash flow report				
Net cash from (for) investing activities	537.9	-	(1.8)	536.1
Net cash from (for) current investing activities	(137.5)	-	1.8	(135.7)

* Data after the retrospective adoption do not include the restatement which reflects an error in the classification of bonds from the held to maturity portfolio to the available for sale portfolio as of the acquisition date, as specified above in Note 1.F.

Note 2 - Interest Income and Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
A. Interest income						
From credit to the public	**432.3**	393.6	433.4	**432.3**	393.6	433.4
From deposits in the Bank of Israel and from cash	**0.9**	1.9	10.3	**0.9**	1.9	10.3
From deposits in banks	**0.1**	0.2	0.2	**0.1**	0.2	0.2
From bonds	**4.1**	10.1	13.9	**4.1**	11.1	15.1
From other assets	**0.9**	0.5	0.6	**0.8**	0.4	0.4
Total interest income	**438.3**	406.3	458.4	**438.2**	407.2	459.4
B. Interest expenses						
On public deposits	**64.2**	48.3	104.3	**83.5**	63.7	127.4
On deposits from banks	**1.7**	1.6	2.2	**1.7**	1.6	2.2
On lent securities	**0.4**	0.4	1.1	**0.4**	0.4	1.1
On liability certificates and deferred liability notes	**29.0**	21.9	33.8	**10.6**	8.4	15.0
Total interest expenses	**95.3**	72.2	141.4	**96.2**	74.1	145.7
Total interest income, net	**343.0**	334.1	317.0	**342.0**	333.1	313.7
C. Details of interest income on an accrual basis from bonds						
Available for sale	**3.1**	9.1	12.1	**3.1**	10.1	13.3
Marketable	**1.0**	1.0	1.8	**1.0**	1.0	1.8
Total included under interest income	**4.1**	10.1	13.9	**4.1**	11.1	15.1

(1) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

Note 3 - Non-Interest Financing Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
A. Non-interest financing income with respect to activities which were not for the purpose of trading						
1. From activities with derivative instruments						
Net income with respect to derivative instruments ALM(1)	**-**(4)	4.9	36.1	**-**(4)	4.9	36.1
2. Net rate differentials (without the impact of derivatives)	**(0.3)**	(7.8)	(36.2)	**(0.3)**	(7.8)	(36.2)
3. From investment in bonds						
Profit from the sale of available for sale bonds (2)	**36.2**	5.3	10.5	**36.2**	5.3	9.1
Loss from the sale of available for sale bonds (2)	**(1.1)**	(0.7)	(0.2)	**(1.1)**	(0.7)	(0.2)
Total from investment in bonds	**35.1**	4.6	10.3	**35.1**	4.6	8.9
4. Losses from investment in stocks						
Provision for impairment with respect to available for sale stocks (2)	**(0.1)**	-	-	**(0.1)**	-	-
Total non-interest financing income with respect to activities for non-trading purposes	**34.7**	1.7	10.2	**34.7**	1.7	8.8
B. Non-interest financing income with respect to activities for trading purposes*						
Expenses, net, with respect to other derivative instruments	**(1.7)**	(1.6)	(7.9)	**(1.7)**	(1.6)	(7.9)
Realized and unrealized profits from adjustments to the fair value of bonds for trading, net (3)	**2.4**	0.9	15.5	**2.4**	0.9	16.9
Realized profits from adjustments to the fair value of marketable stocks, net (4)	**-**	(0.1)	0.3	**-**	(0.1)	0.3
Total with respect to activities for trading purposes	**0.7**	(0.8)	7.9	**0.7**	(0.8)	9.3
Non-interest financing income	**35.4**	0.9	18.1	**35.4**	0.9	18.1

(1) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(2) Reclassified under accumulated other comprehensive income
(3) Of which, the part of the profit (loss) associated with the bonds held for trading which are still held as of the balance sheet date, in the Bank and in consolidated terms, as of December 31, 2016, December 31, 2015 and December 31, 2014, in the amount of NIS (5.4), (3.1) and (2.2) million, respectively.
(4) Represents an amount lower than NIS 0.1 million.

Note 4 - Fees

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Activities with securities	**39.4**	47.8	39.8	**39.4**	47.8	39.8
Project accompaniment fees	**22.4**	18.7	18.6	**22.4**	18.7	18.6
Net income from credit portfolio services	**11.0**	12.3	13.6	**11.0**	12.3	13.6
Handling of credit	**7.8**	9.2	11.7	**7.8**	9.2	11.7
Conversion differences	**12.7**	13.2	10.5	**12.7**	13.2	10.5
Fees from life insurance	**7.5**	8.3	9.0	**3.2**	4.1	4.8
Fees from financing activities	**8.0**	7.0	6.3	**8.0**	7.0	6.3
Fees from property insurance	**1.6**	1.8	2.5	**-**	-	-
Financial product distribution fees	**3.1**	3.5	3.7	**3.1**	3.5	3.7
Other fees	**7.4**	2.7	2.6	**7.4**	2.8	2.6
Total operating fees	**120.9**	124.5	118.3	**115.0**	118.6	111.6

Note 5 - Other Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Capital gains from the sale of buildings and equipment (1)	**-**	5.8	-	**-**	5.0	-
Profit from amortization of deferred income with respect to the acquisition of Clal Batucha (2)	**11.5**	11.5	11.5	**11.5**	11.5	11.5
Total other income	**11.5**	17.3	11.5	**11.5**	16.5	11.5

(1) On October 28, 2015, the Bank sold a real estate property in Jerusalem where a branch of the Bank was located.

(2) As a result of the adjustment of the value of the assets which were acquired by the Bank upon the acquisition of Clal Batucha on December 15, 2013, profit was created from the acquisition at an opportune price of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income in the Bank's balance sheet, which will be amortized over a period of 5 years, using the straight line method. For details, see Note 1.B.1.

Note 6 - Payroll and Associated Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
Payroll	**122.5**	120.4	124.1(1)	**106.4**	105.2	108.9(1)
National Insurance and payroll tax	**26.9**	27.4	25.3	**25.6**	26.2	24.3
Other associated expenses, including study fund, vacation pay and sick pay	**18.7**	14.4	13.9(1)	**16.5**	13.1	12.3(1)
Expenses with respect to defined benefit (severance pay)	**4.3**	3.1	5.0(1)	**3.0**	1.9	3.9(1)
Expenses due to share-based payment transactions	**-**	-	-(2)	**-**	-	-
Other associated expenses	**1.0**	1.0	2.9	**1.3**	1.3	0.4
Total payroll and associated expenses	**173.4**	166.3	171.2(1)	**152.8**	147.7	149.8(1)

(1) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2.

(2) Notes an amount lower than NIS 0.1 million with respect to expenses due to transactions which are accounted for as shared-based payment transactions which are settled through capital instruments.

Note 7 - Other Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
IT	**54.9**	49.2	42.3	**131.4**	106.9	94.0
Professional services	**13.7**	14.4	11.6	**13.2**	13.9	11.0
Marketing and advertising	**13.8**	14.2	15.2	**13.8**	14.2	15.2
Fees	**10.2**	9.2	7.4	**10.0**	9.0	7.3
Vehicle maintenance	**4.1**	4.7	4.8	**3.7**	4.2	4.2
Call center	**7.7**	7.8	7.8	**7.7**	7.8	7.8
Training and continuing education	**2.8**	2.9	3.6	**2.7**	2.8	3.5
Communications (mail, telephone, deliveries, etc.)	**4.2**	3.5	3.3	**4.2**	3.5	3.2
Salary of the Board members *	**1.7**	1.8	2.1	**1.7**	1.8	2.1
Office expenses	**2.9**	2.5	2.6	**2.9**	2.5	2.7
Insurance	**1.4**	1.3	1.3	**1.4**	1.3	1.3
Amortization of intangible assets	**0.4**	0.4	0.4	**0.4**	0.4	0.4
Payment of fines to the Bank of Israel	**-**	-	0.8	**-**	-	0.8
Others	**5.4**	5.8	6.8	**5.3**	5.8	6.6
Total other expenses	**123.2**	117.7	110.0	**198.4**	174.1	160.1

* Not including the salary of the Chairman of the Board, which was recorded under the item for payroll expenses

Note 8 - Provision for Taxes on Income

Reported amounts in millions of NIS

A - Composition of the provision for taxes on income

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
Current taxes with respect to the accounting year	**24.3**	27.9	35.1	**23.4**	26.3	33.1
Deferred taxes with respect to the accounting year	14.0	(5.9)	(6.0)	11.6*	(5.1)	(5.3)
Provision for taxes on income	**38.3**	22.0	29.1	**35.0**	21.2	27.8

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.F. and 1.G.

B - Adjustment between the theoretical tax amount which would have applied had the profit been taxable according to the statutory tax rate which applied in Israel to the Bank, and the provision for taxes on income, as applied to the statement of income:

	Consolidated			The Bank		
	For the year ended December 31					
	2016	2015	2014	2016	2015	2014
Profit before tax	**93.9**	70.6	94.1	**79.4**	64.4	86.6
Statutory tax rate which applies to the Bank in Israel	**35.90%**	37.58%	37.71%	**35.90%**	37.58%	37.71%
Tax amount based on the statutory tax rate	**33.7**	26.5	35.5	**28.5**	24.2	32.7
Tax (tax savings) with respect to:						
Other unrecognized expenses	**1.2**	1.2	1.3	**1.2**	1.2	1.3
Tax exempt and tax restricted income	**(4.2)**	(5.2)	(4.6)	**(4.2)**	(4.9)	(4.3)
Taxes with respect to previous years	**(0.2)**	-	-	**-**	-	-
Change in the balance of deferred taxes due to change in the tax rate	**9.2**	0.7	-	**9.0**	0.7	-
Depreciation adjustment differences	**-**	-	(1.2)		-	(1.2)
Income of subsidiaries in Israel	**(1.6)**	(0.6)	(0.8)		-	-
Other differences	**0.2**	(0.6)	(1.1)	**0.5**	-	(0.7)
Provision for taxes on income	**38.3**	22.0	29.1	**35.0**	21.2	27.8

C - Tax assessments

The Bank has assessments which are considered final up to and including 2010, and in consolidated companies - up to and including 2011.

The Bank has assessments for the years 2011-2014 in a total amount of approximately NIS 16 million (not including interest and linkage).

The Bank disputes the aforementioned assessments, and therefore has filed an objection to them. In the event that the Bank's position is not accepted, the Bank is exposed to a similar claim with respect to some of the issues, also in subsequent years.

According to the assessment of bank management, there are adequate provisions in the financial statements.

Note 8 - Provision for Taxes on Income (Cont.)

Reported amounts in millions of NIS

D - Balances of deferred taxes receivable and provision for deferred taxes (1)

	Consolidated				The Bank			
	For the year ended December 31							
	2016	2015	2016	2015	2016	2015	2016	2015
			Average tax rate				Average tax rate	
Deferred taxes receivable:								
Tax asset with respect to losses	**37.3**	48.3	23.1%	26.5%	**34.1**	44.7	23.2%	26.5%
With respect to timing differences:								
Provision for vacation, jubilee bonus and severance pay	**1.3**	0.6	30.8%	35.8%	**1.2**	0.4	32.7%	37.2%
Securities	**-**	0.1	-	37.2%	**-**	0.1	-	37.2%
Deferred liability notes	**0.2**	0.7	34.7%	37.2%	**0.2**	0.7	34.7%	0.4
From the provision for credit losses	**44.1**	44.6	34.3%	37.2%	**44.1**	44.6	34.2%	37.2%
From interest which was not applied to income this year	**0.1**	0.2	34.4%	37.2%	**0.1**	0.2	34.4%	37.2%
With respect to the adjustment of non-monetary assets and others	**(2.5)**	-	23.0%	-	**0.3**	0.9	33.9%	37.2%
Total deferred taxes receivable	**80.5**	94.5	29.4%	31.8%	**80.0**	91.6	29.5%	32.0%

Current taxes and deferred taxes were calculated in accordance with the tax rates which were in effect on the reporting date.

(1) Realization of net deferred taxes receivable, based on a forecast according to which the Bank will have taxable income in the future, in appropriate amounts.

Note 8 - Provision for Taxes on Income (Cont.)

E - Tax rates which apply to the Bank and its subsidiaries

1. Bank is defined as a "financial institution" for the purpose of the Value Added Tax Law, 5735-1975, and as such, its activities are subject to payroll tax and capital gains tax, in accordance with the rate set forth in the Value Added Tax Law.
2. In November 2015, the Value Added Tax Ordinance (Tax Rate for NPO's and Financial Institutions) (Amendment), 5775-2015 was published, which determined that the payroll tax rate which applies to financial institutions will amount to 17% of the salary which was paid for work performed in October or later, and that the capital gains tax rate published 17% of the produced profits. The provision regarding capital gains tax in the 2015 tax year will apply regarding the proportional part of the profit for that year.
3. In January 2016, the Law in Amendment of the Income Tax Ordinance (No. 216) was approved (Reduction of Corporate Tax Rate), 5776-2016, which includes a reduction of the corporate tax rate from 26.5% to 25%. This amendment entered into effect on January 1, 2016. In accordance with the aforementioned amendment, the overall tax rate which will apply to financial institutions, including the Company, beginning on January 2016, 2016 and thereafter, will amount to 35.90%.
4. In December 2016, the Economic Efficiency Law (Legislative Amendments Regarding the Implementation of the Economic Policy for the Budget Years 2017 and 2018), was approved, and will enter into effect on January 1, 2017. As part of the foregoing, approval was given, inter alia, for decreasing the corporate tax rate from 25% to 24% beginning in January 2017, and to 23% beginning in January 2018 and thereafter. In accordance with the aforementioned amendment, the overall tax rate which will apply to financial institutions, including the Company, in 2017, will be 35.04%, and in 2018 and thereafter, will be 34.19%.
5. Following the aforementioned changes to the corporate tax rate in 2016, the Bank recorded, in the consolidated report, tax expenses in the amount of NIS 9.2 million, against a reduction of the deferred tax assets (in the Bank's report - NIS 9.0 million).
6. Presented below are the statutory tax rates which apply to financial institutions, including the Bank, following the aforementioned changes:

Year	Tax rate Companies	Tax rate Comprehensive	Tax rate income
		%	
2014	26.50	18.00	37.71
2015	26.50	17.75	37.58
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

(1) Weighted rate.
(2) As compared with a tax rate of 37.71%, prior to the publication of the amendment.

F. Beginning in 2017, the Bank will be required to adopt a new tax standard, according to which it will be required to perform provisions for tax with respect to undistributed profits, net of tax, of subsidiaries, which have accrued in 2017 and thereafter, which are considered "authorized dealers" for the purpose of value added tax. The impact of the adoption of the provisions on the Bank's profits is immaterial.

Note 8 - Provision for Taxes on Income (Cont.)

G. Following the following decision to implement a structural change, according to which the plan was approved for the merger of Clal Finance Batucha into the Bank, the business losses of Clal Finance Batucha and of the subsidiary, Clal Finance Batucha Brokerage Ltd., amount to a total of approximately NIS 217.5 million as of the end of 2013, in accordance with the agreement with the tax authorities, were deductible for tax purposes over 9 years, provided that the amount of the deduction for the entire year does not exceed 50% of the profit for corporate tax that year purposes in that year. The non-deductible balance of the loss due to this restriction will remain in full in the tenth year. As a result of the adjustment of the value of the assets which were acquired by the Bank upon the acquisition of Clal Finance Batucha, profit from the acquisition was created (negative goodwill) in the amount of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income in the Bank's balance sheet, which is being amortized over a period of 5 years from the acquisition date, using the straight line method (NIS 11.5 million per year), and is included in the statement of income, under the item for other income.

Note 9 - Earnings per Share Attributed to the Bank's Shareholders

Reported amounts in millions of NIS

	Consolidated		
	For the year ended December 31		
	2016	**2015**	**2014**
Total net earnings attributed to the holders of the Bank's ordinary shares	**55.6**	48.6	65.0*
Weighted average of number of ordinary shares which was used in the calculation of basic and diluted earnings	**70.5**	70.5	70.5
Earnings per share (in NIS)			
Basic and diluted earnings	**0.79**	0.69	0.92*

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G.

Note 10 - Cumulative Other Comprehensive Income (Loss)

Reported amounts in millions of NIS

A. Changes in accumulated other comprehensive income (loss) after tax impact

	Adjustments with respect to the presentation of available for sale securities at fair value	Adjustments with respect to employee benefits	Total
Balance as of January 1, 2014	**0.3**	**1.7**	**2.0**
Net change during the period	13.1	(0.5)	12.6
Balance as of January 1, 2015	**13.4**	**1.2**	**14.6**
Net change during the period	2.6	(0.5)	2.1
Balance as of December 31, 2015	**16.0**	**0.7**	**16.7**
Net change during the period	(17.5)	-	(17.5)
Balance as of December 31, 2016	**(1.5)**	**0.7**	**(0.8)**

B. Changes in components of accumulated other comprehensive income (loss), before tax impact and after tax impact

	For the year ended								
	December 31, 2016			December 31, 2015			December 31, 2014		
	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax
Adjustments with respect to the presentation of available for sale securities at fair value									
Unrealized net profit (loss) from adjustments to fair value (1)	7.3	(2.6)	4.7	8.5	(3.0)	5.5	31.3	(11.5)	19.8
Profit (loss) with respect to available for sale securities which were reclassified to the statement of income (2)	(35.0)	12.8	(22.2)	(4.6)	1.7	(2.9)	(10.3)	3.6	(6.7)
Total net change during the period	**(27.7)**	**10.2**	**(17.5)**	**3.9**	**(1.3)**	**2.6**	**21.0**	**(7.9)**	**13.1**
Employee benefits									
Actuarial profit (loss) for the period	**0.3**	**(0.1)**	**0.2**	(0.7)	0.3	(0.4)	(0.2)	0.1	(0.1)
Net profit (loss) which was reclassified to the statement of income (3)	**(0.3)**	**0.1**	**(0.2)**	(0.2)	0.1	(0.1)	(0.5)	0.1	(0.4)
Total net change during the period	**-**	**-**	**-**	(0.9)	0.4	(0.5)	(0.7)	0.2	(0.5)
Total net change during the period	**(27.7)**	**10.2**	**(17.5)**	**3.0**	**(0.9)**	**2.1**	**20.3**	**(7.7)**	**12.6**

(1) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.

(2) The pre-tax amount is reported in the statement of income under the item for non-interest financing income. For details, see Note 3.

(3) The pre-tax amount is reported in the statement of income under the item for payroll expenses. For details, see Note 23.

Note 11 - Cash and Deposits in Banks

Reported amounts in millions of NIS

	As of December 31	
	2016	2015
Cash and deposits in central banks	2,426.3	1,910.4
Cash and deposits in commercial banks	95.7	161.5
Total cash and deposits in banks	2,522.0	2,071.9
Of which: cash, deposits in banks and deposits at the Bank of Israel, for an original period of up to 3 months	2,522.0	2,071.9

Note 12 - Securities - Consolidated

Reported amounts in millions of NIS

	As of December 31, 2016				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value [1]
A.Available for sale securities -					
Bonds					
Of the Government of Israel [4]	637.2	640.1	0.5	3.4	637.2
Of foreign governments	232.8	232.7	0.3	0.2	232.8
Of others in Israel	0.8	0.7	0.1	-	0.8
Total bonds	**870.8**	**873.5**	**0.9**	**3.6**	**870.8**
Stocks and funds	**6.1**	**5.7**	**0.4**	**-**	**6.1**
Total available for sale securities	**876.9**	**879.2**	**1.3**	**3.6**	**876.9**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
B.Marketable securities					
Bonds					
Of the Government of Israel [5]	531.2	533.9	3.7	6.4	531.2
Of foreign governments	26.4	29.1	-	2.7	26.4
Total marketable securities	**557.6**	**563.0**	**3.7[3]**	**9.1[3]**	**557.6**
Total securities	**1,434.5**	**1,442.2**	**5.0**	**12.7**	**1,434.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under other comprehensive income, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Applied to the statement of income.
(4) Of which, NIS 78.9 million (2015 - NIS 406.5 million) was pledged to lenders, as specified in Note 27 to this report.
(5) Of which, NIS 234.5 million was pledged to the lenders, as specified in Note 27 to this report.
For details regarding the results of operations of bond investment activities, see Notes 2 and 3 to this report.

Note 12 - Securities - Consolidated

Reported amounts in millions of NIS

	As of December 31, 2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
A.Available for sale securities -					
Bonds and ETF's					
Of the Government of Israel (4)	787.9	761.7	27.5	1.3	787.9
Of foreign governments	402.3	403.1	-	0.8	402.3
Of financial institutions in Israel	0.9	0.9	-	-	0.9
Of others in Israel	12.6	12.5	0.1	-	12.6
ETF's	1.8	1.9	-	0.1	1.8
Total bonds	**1,205.5**	**1,180.1**	**27.6**	**2.2**	**1,205.5**
Stocks and funds	**5.9**	**5.9**	**-**	**-**	**5.9**
Total available for sale securities	**1,211.4**	**1,186.0**	**27.6(2)**	**2.2(2)**	**1,211.4**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
B.Marketable securities					
Bonds and ETF's					
Of the Government of Israel	511.5	511.4	2.4	2.3	511.5
Of foreign governments	55.8	59.0	-	3.2	55.8
ETF's	0.8	0.8	-	-	0.8
Total marketable securities	**568.1**	**571.2**	**2.4(3)**	**5.5(3)**	**568.1**
Total securities	**1,779.5**	**1,757.2**	**30.0**	**7.7**	**1,779.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under other comprehensive income, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Applied to the statement of income.
(4) Of which, NIS 78.9 million (2015 - NIS 406.5 million) was pledged to lenders, as specified in Note 27 to this report.
(5) Of which, NIS 234.5 million was pledged to the lenders, as specified in Note 27 to this report.
For details regarding the results of operations of bond investment activities, see Notes 2 and 3 to this report.

Note 12 - Securities - Consolidated (Cont.)

Reported amounts in millions of NIS

C. Fair value and unrealized losses, by time period and rate of impairment, of available for sale securities which are held in unrealized losing positions

	As of December 31, 2016							
	Less than 12 months				12 months or more			
	Value Fair	Unrealized losses [(1)]			Value Fair	Unrealized losses [(1)]		
		0-20%	20-40%	Total		0-20%	20-40%	Total
Bonds								
Of the Government of Israel	296.5	3.4	-	3.4	-	-	-	-
Of foreign governments	87.6	0.2	-	0.2	-	-	-	-
Total available for sale securities	**384.1**	**3.6**	**-**	**3.6**	**-**	**-**	**-**	**-**

	As of December 31, 2015							
	Less than 12 months				12 months or more			
	Value Fair	Unrealized losses [(1)]			Value Fair	Unrealized losses [(1)]		
		0-20%	20-40%	Total		0-20%	20-40%	Total
Bonds								
Of the Government of Israel	186.8	1.3	-	1.3	0.2	- [(2)]	-	- [(2)]
Of foreign governments	342.7	0.8	-	0.8	-	-	-	-
Of financial institutions in Israel	0.9	-	-	-	-	-	-	-
Of others in Israel	-	-	-	-	11.7	- [(2)]	-	- [(2)]
ETF's	**1.8**	**0.1**	**-**	**0.1**	**-**	**-**	**-**	**-**
Total available for sale securities	**532.2**	**2.2**	**-**	**2.2**	**11.9**	**-** [(2)]	**-**	**-** [(2)]

(1) In the Bank's estimate, the impairments are of a temporary nature, and therefore, there is no need to record impairment.
(2) Represents an amount lower than NIS 0.1 million.

Note 12 - Securities - The Bank (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2016				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value [1]
A.Available for sale securities -					
Bonds and ETF's					
Of the Government of Israel [4]	637.2	640.1	0.5	3.4	637.2
Of foreign governments	232.8	232.7	0.3	0.2	232.8
Of others in Israel	0.8	0.7	0.1	-	0.8
Total bonds	**870.8**	**873.5**	**0.9**	**3.6**	**870.8**
Stocks and funds	**6.1**	**5.7**	**0.4**	**-**	**6.1**
Total available for sale securities	**876.9**	**879.2**	**1.3** [2]	**3.6** [2]	**876.9**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
B. Marketable securities					
Bonds					
Of the Government of Israel [5]	531.2	533.9	3.7	6.4	531.2
Of foreign governments	26.4	29.1	-	2.7	26.4
Total marketable securities	**557.6**	**563.0**	**3.7**[3]	**9.1**[3]	**557.6**
Total securities	**1,434.5**	**1,442.2**	**5.0**	**12.7**	**1,434.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under other comprehensive income, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Applied to the statement of income.
(4) Of which, NIS 78.9 million (2015 - NIS 406.5 million) was pledged to lenders, as specified in Note 27 to this report.
(5) Of which, NIS 234.5 million was pledged to the lenders, as specified in Note 27 to this report.
For details regarding the results of operations of bond investment activities, see Notes 2 and 3 to this report.

Note 12 - Securities - The Bank (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2015				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value [1]
A.Available for sale securities -					
Bonds and ETF's					
Of the Government of Israel [5]	787.9	761.7	27.5	1.3	787.9
Of foreign governments	402.3	403.0	0.1	0.8	402.3
Of financial institutions in Israel [4]	18.7	18.7	-	-	18.7
Of others in Israel	12.6	12.5	0.1	-	12.6
ETF's	1.8	1.9	-	0.1	1.8
Total bonds and ETF's	**1,223.3**	**1,197.8**	**27.7**	**2.2**	**1,223.3**
Stocks and funds	**5.9**	**5.9**	**-**	**-**	**5.9**
Total available for sale securities	**1,229.2**	**1,203.7**	**27.7** [2]	**2.2** [2]	**1,229.2**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value [1]
B. Marketable securities					
Bonds and ETF's					
Of the Government of Israel	511.5	511.4	2.4	2.3	511.5
Of foreign governments	55.8	59.0	-	3.2	55.8
ETF's	0.8	0.8	-	-	0.8
Total bonds and ETF's	**568.1**	**571.2**	**2.4** [3]	**5.5** [3]	**568.1**
Total securities	**1,797.3**	**1,774.9**	**30.1**	**7.7**	**1,797.3**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under other comprehensive income, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Applied to the statement of income.
(4) Of which, NIS 78.9 million (2015 - NIS 406.5 million) was pledged to lenders, as specified in Note 27 to this report.
(5) Of which, NIS 234.5 million was pledged to the lenders, as specified in Note 27 to this report.
For details regarding the results of operations of bond investment activities, see Notes 2 and 3 to this report.

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts (1), credit to the public and balance of the provision for credit losses

	As of December 31, 2016					
	Commercial	Residential	Other private	Total public	Banks and governments	Total
Recorded debit balance (1)						
Debts evaluated on an individual basis	1,245.5	-	19.7	1,265.2	-	1,265.2
Debts evaluated on a collective basis (*)	509.1	7,014.1	1,104.2	8,627.4	-	8,627.4
(*) Of which: by extent of arrears	152.5	6,669.7	-	6,822.2	-	6,822.2
Total debts (**)	**1,754.6**	**7,014.1**	**1,123.9**	**9,892.6**	**-**	**9,892.6**
(**) Of which:						
C. Debts under restructuring	6.1	-	15.7	21.8	-	21.8
Other impaired debts	24.1	-	-	24.1	-	24.1
Total impaired debts	**30.2**	**-**	**15.7**	**45.9**	**-**	**45.9**
Debts in arrears of 90 days or more	5.1	137.4	10.6	153.1	-	153.1
Other troubled debts	1.5	-	10.6	12.1	-	12.1
Total troubled debts	**36.8**	**137.4**	**36.9**	**211.1**	**-**	**211.1**
Provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	5.9	-	9.8	15.7	-	15.7
Evaluated on a collective basis (*)	1.5	44.6	40.7	86.8	-	86.8
(*) Of which: by extent of arrears	0.5	44.6	-	45.1	-	45.1
Total (**)	**7.4**	**44.6**	**50.5**	**102.5**	**-**	**102.5**
(**) Of which: with respect to impaired debts	1.4	-	9.7	11.1	-	11.1

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts [(1)], credit to the public and balance of the provision for credit losses

	As of December 31, 2015 [(3)]					
Recorded debit balance [(1)]						
Debts evaluated on an individual basis	1,706.0	-	20.2	1,726.2	-	1,726.2
Evaluated on a collective basis (*)	179.6	7,023.9	1,071.2	8,274.7	-	8,274.7
(*) Of which: by extent of arrears	76.0	6,759.5	-	6,835.5	-	6,835.5
Total debts (**)	**1,885.6**	**7,023.9**	**1,091.4**	**10,000.9**	**-**	**10,000.9**
(**) Of which:						-
C. Debts under restructuring	7.4	-	15.9	23.3	-	23.3
Other impaired debts	2.4	-	-	2.4	-	2.4
Total impaired debts	**9.8**	**-**	**15.9**	**25.7**	**-**	**25.7**
Debts in arrears of 90 days or more	3.1	164.6	10.7	178.4	-	178.4
Other troubled debts	1.0	5.5	9.4	15.9	-	15.9
Total troubled debts	**13.9**	**170.1**	**36.0**	**220.0**	-	**220.0**
Provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	5.7	-	9.1	14.8	-	14.8
Evaluated on a collective basis (*)	1.6	59.8	35.4	96.8	-	96.8
(*) Of which: by extent of arrears	0.3	59.8	-	60.1	-	60.1
Total (**)	**7.3**	**59.8**	**44.5**	**111.6**	-	**111.6**
(**) Of which: with respect to impaired debts	0.5	-	9.0	9.5	-	9.5

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 1 million, and which was calculated on a collective basis in the amount of NIS 24.1 million. (as of December 31, 2015 - NIS 5.5 million and NIS 24.2 million, respectively).

(3) Reclassified.

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Movement in the balance of the provision for credit losses

	Commercial	Residential	Other private	Total public	Banks and governments	Total
Balance of the provision for credit losses as of December 31, 2013	11.0	69.9	30.5	111.4	-	111.4
Expenses with respect to credit losses	(9.6)	(1.3)	29.3	18.4	-	18.4
Accounting write-offs	(0.2)	(6.8)	(30.5)	(37.5)	-	(37.5)
Collection of debts which were written off in previous years	9.0	2.7	6.7	18.4	-	18.4
Net accounting write-offs	8.8	(4.1)	(23.8)	(19.1)	-	(19.1)
Balance of the provision for credit losses as of December 31, 2014 *	**10.2**	**64.5**	**36.0**	**110.7**	**-**	**110.7**
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses as of December 31, 2015 *	**9.1**	**60.2**	**45.1**	**114.4**	**-**	**114.4**
Expenses with respect to credit losses	0.7	(7.7)	37.4	30.4	-	30.4
Accounting write-offs	(0.4)	(7.7)	(41.3)	(49.4)	-	(49.4)
Collection of debts which were written off in previous years	0.2	-	9.8	10.0	-	10.0
Net accounting write-offs	(0.2)	(7.7)	(31.5)	(39.4)	-	(39.4)
Balance of the provision for credit losses as of December 31, 2016 *	**9.6**	**44.8**	**51.0**	**105.4**	**-**	**105.4**
(*) Of which: with respect to off-balance sheet credit instruments						
As of December 31, 2014	1.5	0.9	0.4	2.8	-	2.8
As of December 31, 2015	1.8	0.4	0.6	2.8	-	2.8
As of December 31, 2016	2.2	0.2	0.5	2.9	-	2.9

Note 14 - Credit to the Government

Reported amounts in millions of NIS

	As of December 31	
	2016	**2015**
Credit within the framework of arrangements for the supplementation of interest to entitled individuals of the Ministry of Construction & Housing (*)	**0.2**	0.4
Less - supplementation of interest in advance from the government	**(0.2)**	(0.4)
Total credit to the government	**-**	-

(*) In accordance with an agreement between the Government of Israel and the Bank, the government undertook to supplement to the Bank, with respect to certain housing loans which were given to individuals who are entitled to assistance in accordance with the instructions of the Ministry of Construction & Housing, the interest margin between the average low interest rate which was practiced in mortgage banks, according to an agreed upon formula, and the actual interest rate on the aforementioned loans. The supplementation of interest, as stated above, with respect to each loan period in advance, discounted by an interest rate of 2% per year, was provided as a deposit in favor of the Bank at the Accountant General, which bears interest at an identical rate.

Note 15 - Investment in Investee Companies

A - Composition of the investment

	Consolidated		The Bank	
	As of December 31			
	2016	**2015**	**2016**	**2015**
Consolidated companies				
Investment in shares	-	-	397.0	385.6
Of which: Profit which accumulated from the acquisition date	-	-	301.8	290.4

B - The Bank's share in the profit or loss of investee companies

	Consolidated			The Bank		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
The Bank's share in the profits of investee companies	-	-	-	14.9	7.0	7.6
Provision for taxes						
Current taxes	-	-	-	1.3	1.6	2.0
Deferred taxes	-	-	-	2.4	-	(0.6)
Total provision for taxes	-	-	-	3.7	1.6	1.4
The Bank's share in the profits of investee companies, after tax impact	-	-	-	11.2	5.4	6.2

Note 15 - Investment in Investee Companies (Cont.)

Reported amounts in millions of NIS

C - Details of main investee companies

Name of company	Details regarding the company	Share in capital which confers the right to receive profits and voting rights	Investment in shares According to book value As of December 31		Contribution to net profit from operating activities December 31	
			2016	**2015**	**2016**	**2015**
Tomer Jerusalem Ltd.	(1)	100%	**157.7**	151.1	**6.6**	0.2
Ir Shalem International Insurance Agency (1996) Ltd.	(2)	100%	**169.9**	165.7	**4.2**	4.1
Jerusalem Investment Portfolio Management Ltd.	(3)	100%	**35.3**	35.2	**-**	0.1
Jerusalem Capital Markets Fund Management (1980) Ltd.	(4)	100%	**1.6**	1.6	**-**	-
Jerusalem Underwriting and Issuances Ltd.	(5)	100%	**6.6**	6.5	**-**	-
Bank of Jerusalem Trust Company Ltd.	(6)	100%	**0.5**	0.5	**-**	-
Jerusalem Finance & Issuance (2005) Ltd.	(7)	100%	**25.4**	25.0	**0.4**	1.0

(1) The majority of the activities of Tomer Jerusalem Ltd. (hereinafter: "Tomer") involve serving as the Bank's asset company, and providing IT services to the Bank.

(2) Ir Shalem International Insurance Agency (1996) Ltd. operates as an insurance agency which provides services related to insurance for the assets and life insurance policies of loan recipients in the Bank.

(3) Jerusalem Investment Portfolio Management Ltd. was engaged in the provision of consulting services and investment portfolio management services. In 2014 - inactive.

(4) Jerusalem Capital Markets Fund Management (1980) Ltd. was engaged in mutual fund management. In 2006, the mutual fund operation was sold - inactive.

(5) Jerusalem Underwriting and Issuances Ltd. was engaged in the underwriting of issuances. The company decided to terminate its operations as an underwriter, and changed its status in the Registrar of Underwriters to "inactive".

(6) The Bank of Jerusalem Trust Company Ltd. is engaged in the holding in trust of accounts and financial assets of foreign residents and other parties.

(7) Jerusalem Finance & Issuance (2005) Ltd. (a subsidiary wholly controlled and owned by the Bank) works to raise sources through the issuance of bonds and deferred liability notes to the public, on behalf of the Bank. In 2016, Finance & Issuance (2005) raised approximately NIS 128.4 million par value through an issuance of liability certificates, and in 2015, approximately NIS 296 million par value. For details, see the note regarding bonds and deferred liability notes.

(8) Amounts lower than NIS 0.1 million are not presented in this note.

D - Acquisition of liability certificates which were issued by a subsidiary

The Bank does not hold, as of the balance sheet date, liability certificates of the subsidiary Jerusalem Finance & Issuance (2005) Ltd. As of December 31, 2015, the Bank held a total par value of NIS 17.8 thousand of Series G. With respect to this series, the Bank had no right to receive interest.

Note 16 - Buildings and Equipment

Reported amounts in millions of NIS

	Consolidated				The Bank			
	Buildings and real estate (1)(5)	Equipment, furniture and vehicles	Software costs (3)(4)	Total	Buildings and real estate (1)(5)	Equipment, furniture and vehicles	Software costs	Total
Cost of assets (2)(3)								
Balance as of December 31, 2014	**71.0**	**54.2**	**203.4(6)**	**328.6(6)**	**45.6**	**29.7**	**0.8**	**76.1**
Additions	2.8	3.9	47.9	54.6	-	0.3	-	0.3
Write-offs (6)	7.1	0.3	-	7.4	5.5	0.3	-	5.8
Balance as of December 31, 2015	**66.7**	**57.8**	**251.3**	**375.8**	**40.1**	**29.7**	**0.8**	**70.6**
Additions	1.2	2.6	49.2	53.0	-	-	-	-
Write-offs (6)	-	2.4	37.7	40.1	-	-	-	-
Balance as of December 31, 2016	**67.9**	**58.0**	**262.8**	**388.7**	**40.1**	**29.7**	**0.8**	**70.6**
Depreciation and impairment loss								
Balance as of December 31, 2014	**39.6**	**41.1**	**98.2(6)**	**178.9(6)**	**32.9**	**26.9**	**0.2**	**60.0**
Depreciation for the year	3.9	4.3	36.8	45.0	1.1	0.6	0.2	1.9
Write-offs (6)	4.7	0.3	-	5.0	3.8	0.3	-	4.1
Balance as of December 31, 2015	**38.8**	**45.1**	**135.0**	**218.9**	**30.2**	**27.2**	**0.4**	**57.8**
Depreciation for the year	3.2	4.4	44.5	52.1	0.8	0.5	0.2	1.5
Write-offs (6)	-	2.4	37.7	40.1	-	-	-	-
Balance as of December 31, 2016	**42.0**	**47.1**	**141.8**	**230.9**	**31.0**	**27.7**	**0.6**	**59.3**
Balance for amortization (book value)								
As of December 31, 2016	25.9	10.9	121.0	157.8	9.1	2.0	0.2	11.3
As of December 31, 2015	27.9	12.7	116.3	156.9	9.9	2.5	0.4	12.8
As of December 31, 2014	31.4	13.1	105.2(6)	149.7(6)	12.7	2.8	0.6	16.1
Weighted average depreciation rate								
In % as of December 31, 2016	9.79	15.33	21.92		5.52	8.66	25.00	
In % as of December 31, 2015	10.13	15.74	22.51		6.00	8.77	25.00	

(1) Including leasehold improvements.
(2) The Bank and the subsidiaries own property, the cost of which amounts to NIS 58.2 million (consolidated) and NIS 42.5 million (in the Bank) (in 2015 - NIS 108.3 million and NIS 40.2 million, respectively), which was fully amortized, and is still in use. During 2016, fully amortized assets were written off in the amount of NIS 40.2 million.
(3) Includes discounted expenses with respect to work salary and outsourcing, in the amount of NIS 14.5 million (as of December 31, 2015 - NIS 13.8 million).
(4) Includes costs for the consumption of materials and services which are associated with software development.
(5) The Bank has no rights which have not yet been recorded in the Land Registry.
(6) Restated in light of the retrospective adoption due to directives issued by the Banking Supervision Department on the subject of the discounting of software costs. For details, see Note 1.G.

Note 17 - Intangible Assets

Reported amounts in millions of NIS

	Customer relations [1]
Cost	
Balance as of December 31, 2014	**2.0**
Additions during the year	-
Balance as of December 31, 2015	**2.0**
Additions during the year	-
Balance as of December 31, 2016	**2.0**
Amortization	
Balance as of December 31, 2014	**(0.4)**
Amortization for the year	(0.4)
Balance as of December 31, 2015	**(0.8)**
Amortization for the year	(0.4)
Balance as of December 31, 2016	**(1.2)**
Balance for amortization (book value)	
As of December 31, 2016	0.8
As of December 31, 2015	1.2
As of December 31, 2014	1.6

(1) The fair value of the customer relations which were purchased in the transaction involving the acquisition of Clal Finance Ltd.'s entire stake in Clal Batucha, on December 15, 2013, was calculated by discounting the cash flows, net of tax, which are expected to be generated from the customer relations of the acquired company, net of theoretical expenses with respect to the use of the business's assets. The customer relations are amortized equally over a period of 5 years.

Note 18 - Other Assets

Reported amounts in millions of NIS

	Consolidated		The Bank	
	As of December 31			
	2016	2015	2016	2015
Deferred tax receivable, net (see Note 8)	**80.5**	94.5[2]	**80.0**	91.6[2]
Surplus of advance payments paid	**25.7**	7.7[2]	**23.2**	5.0[2]
Prepaid expenses	**6.2**	5.7	**4.8**	5.1
Bond issuance expenses [1]	**6.3**	6.6	**-**	-
Income receivable	**1.4**	1.7	**0.7**	0.7
Surplus of the fund for severance pay over the reserve (see Note 23)	**0.1**	0.9	**0.2**	1.0
Other receivables and debit balances	**25.5**	8.5	**25.3**	8.0
Total other assets	**145.7**	125.6	**134.2**	**111.4**

(1) Bond issuance expenses are amortized according to the effective interest method.
(2) Reclassified

Note 19 - Public Deposits

Reported amounts in millions of NIS

A. Deposit types by depositor types

	Consolidated		The Bank	
	For the year ended December 31			
	2016	2015	2016	2015
In Israel				
On demand				
Non-interest bearing	**1,564.8**	1,340.2	**1,602.3**	1,560.3
Interest bearing	**746.1**	897.9	**746.1**	897.9
Total on demand	**2,310.9**	2,238.1	**2,348.4**	2,458.2
For fixed periods	**8,557.4**	8,780.9	**9,799.3**	10,043.2
Total public deposits*	**10,868.3**	11,019.0	**12,147.7**	12,501.4
*** Of which:**				
Deposits of private individuals	**8,450.2**	8,356.9	**8,450.2**	8,356.9
Deposits of institutional entities	**1,361.3**	1,378.8	**1,361.3**	1,378.8
Deposits of corporations and others	**1,056.8**	1,283.3	**2,336.2**	2,765.7

B. Public deposits by size, on a consolidated basis

Maximum deposit in millions of NIS	For the year ended December 31	
	2016	2015
Up to 1	**5,773.6**	6,147.8
1 to 5	**2,630.3**	2,615.6
5 to 10	**319.4**	288.8
10 to 50	**862.9**	977.2
50 to 100	**394.6**	239.4
100 to 200	**887.5**	750.2
Total	**10,868.3**	11,019.0

Note 20 - Deposits from Banks

Reported amounts in millions of NIS

	For the year ended December 31	
	2016	2015
Deposits for defined periods from commercial banks	**36.5**	39.4

Note 21 - Bonds and Deferred Liability Notes

Reported amounts in millions of NIS

A - Composition

	Average lifetime[1]	Internal rate of return[2]	Consolidated		Bank	
			December 31			
			2016	2015	2016	2015
	Years	%				
Bonds and deferred liability notes which are not convertible to shares:						
In unlinked Israeli currency	**3.37**	**2.06%**	**428.6**	391.8	**212.2**	115.5[3]
In CPI-linked Israeli currency	**2.89**	**2.22%**	**1,153.2**	1,242.6	**346.8**	292.4[3]
In USD-linked Israeli currency	**0.41**	**5.03%**	**0.3**	0.4	**0.3**	0.3
Total bonds and deferred liability notes			**1,582.1**	1,634.8	**559.3**	408.2
Of which: deferred liability notes (non-contingent)			**338.7**	406.2	**338.7**	406.2
Of which: Deferred contingent liability notes			**126.7**	-	**126.7**	-

(1) Duration is the average of weighted payment periods in the discounted flow, according to the internal rate of return.
(2) The internal rate of return is the interest rate which deducts the expected flow of payments to the balance sheet balance included in the financial statements.
(3) Reclassified.

B - Additional details

(1) A. On October 28, 2015, Jerusalem Finance & Issuance (2005) Ltd. issued, in a private issuance to classified investors, an additional extension of deferred liability notes (Series I, second extension), from a series traded on the stock exchange, at a par value of NIS 296,300 thousand, at a price of NIS 1,063 to NIS 1,000 par value. The terms of the liability notes will be identical to the terms of the liability notes as described in the shelf offering report which was published by the company on December 24, 2012.

B. On June 9, 2016, Jerusalem Finance & Issuance (2005) Ltd., a wholly owned subsidiary of the Bank (hereinafter: the "Subsidiary"), issued NIS 128.4 million of deferred liability notes (Series 11) of the contingent convertibles (CoCo) type, which also include a mechanism for the absorption of losses by writing off principal. The liability certificates were issued through a shelf offering report dated June 7, 2016 June 7, and a supplementary announcement on June 9, 2016. The deferred liability notes are repayable in a single payment on June 7, 2026, with an option which is available to the subsidiary for an early repayment no earlier than June 7, 2021, and no later than July 7, 2021, linked to the index for April 2016, bearing fixed annual interest at a rate of 3.2% per year, until the early repayment date. At present, and insofar as the Company does not exercise its right to early redemption, the stated interest rate of the bond will be updated in accordance with the difference between the interest rate anchor (the annual average yield of government bonds with remaining period to maturity of 5 years) on the issuance date and the rate as of the date of the interest update. Upon the fulfillment of circumstances for a constitutive event, as defined below, the Company will write off the principal of the liability certificates. A constitutive event will occur if the equity ratio of Bank of Jerusalem Ltd. falls below 5%, or upon the earlier of either: (1) An announcement by the Commissioner of Banks stating that delisting is necessary in order to avoid reaching a point of discontinuity, or (2) A decision by the Commissioner of Banks to implement a capital injection from the public sector, or an equivalent support, without which the Bank would reach a point of discontinuity, as determined by the Commissioner of Banks. The liability certificates fulfill the conditions set forth in Proper Banking Management Directive 202, and are recognized by the Commissioner of Banks as Tier 2 capital.

C. On December 29, 2016, the Bank issued a credit-linked note which meets the requirements of Proper Banking Management Directive 203, in the amount of NIS 98.3 million. The credit portfolio for which the note was issued includes housing loans in accordance with Proper Banking Management Directive 451, which were given by the Bank. The will update the amount of the liability on a monthly basis, in accordance with changes in the scope of the credit portfolio. The final repayment of the liability amount will be performed on February 15, 2044.

D. Jerusalem Finance & Issuance (2005) Ltd. has an agreement with the Bank, in which it was determined that the issuance consideration of the certificates of deposit according to the prospectus will be deposited in the Bank, through an interest bearing deposit, interest bearing deposit, which will have identical repayment terms as the terms of the certificates of deposit, and at interest terms which will be identical or preferable thereto, as will be agreed upon, from time to time, with the Bank. The deposit will be available to the Bank to use in its judgment, and with a repayment rating equal to the other deposits in the Bank.

E. On May 31, 2016, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and left the rating outlook as "stable". The rating of the deferred liability notes which were issued by the subsidiary Jerusalem Finance & Issuance Ltd. reflects one level lower than the issuer's level, i.e., a rating of ilA-.

F. On November 14, 2016, Jerusalem Finance & Issuance (2005) Ltd. (a wholly owned subsidiary of the Bank) published a new shelf prospectus based on its financial statements as of June 30, 2016, according to which the Company is entitled to issue, in the future, various securities according to the scope and conditions which will be determined in accordance with shelf offering reports, if and insofar as they will be published by the Company in the future (the "Shelf Prospectus").

(2) For details regarding the Bank's acquisitions of liability certificates which were issued by Jerusalem Finance & Issuance (2005) Ltd., see Note 15.

(3) Within the framework of issuances to the public of liability certificates by Jerusalem Finance & Issuance (2005) Ltd., the Bank undertook towards Jerusalem Finance & Issuance (2005) Ltd. and the trustee for those issuances, to uphold all of the terms of the liability certificates which were issued by it and which will be held by the public.

(4) On May 17, 2015, the Bank sold to the public all of its holdings in the bonds (Series H) of Jerusalem Finance & Issuance Ltd. (a company wholly owned by the Bank), in a total par value of NIS 151,060 thousand.

Note 22 - Other Liabilities

Reported amounts in millions of NIS

	Consolidated		The Bank	
	For the year ended December 31			
	2016	**2015**	**2016**	**2015**
Deferred income	**22.8**	34.2	**22.8**	34.2
Accrued income	**21.8**	20.5	**21.8**	20.5
Payables with respect to credit card activities	**34.5**	36.3	**34.5**	36.3
Payables with respect to fixed assets	**10.6**	8.6	**-**	-
Payroll and associated payables	**11.1**	11.7	**10.2**	10.9
Provision for credit losses with respect to off-balance sheet items (see Note 30D)	**2.9**	2.8	**2.9**	2.8
Other payables and credit balances	**64.9**	44.9	**58.8**	43.6
Total other liabilities	**168.6**	159.0*	**151.0**	148.3*

* Reclassified.

Note 23 - Employee Rights

Presented below are details regarding the main rights and benefits owed to employees:

A - Retirement pay

The retirement pay reserve included in the balance sheet, together with payments with respect to insurance policies, cover the liability to pay retirement pay to employees. Amounts which were deposited by the Bank and its subsidiaries in insurance companies within the framework of personal managers insurance plans are not included in the balance sheet, due to the fact that they are not under the Bank's control. The withdrawal of fund amounts is conditional upon the fulfillment of the provisions of the Severance Pay Law.

The balance of the excess of severance pay funds over the reserve was included under the item for other assets. consolidated - NIS 0.2 million (2015 - NIS 0.9 million), in the Bank - NIS 0.1 million (2015 - NIS 1.0 million). For additional details, see below in this note.

B - Reserve for jubilee bonuses

The employees of the Bank and its subsidiaries are entitled, upon reaching a certain level of seniority, to receive a special bonus ("jubilee bonus"). The financial statements included provisions for jubilee bonuses, the balance of which is: consolidated - NIS 2.2 million (2015 - NIS 2.1 million), in the Bank - NIS 1.7 million (2015 - NIS 1.7 million), under the item for "payroll and associated payables", within the framework of "other liabilities".

C - Vacation

The employees of the Bank and its subsidiaries are entitled by law, and in accordance with employment agreements, to receive annual vacation days. The balance of the provision for vacation days as of the balance sheet date amounts to NIS 2.1 million, consolidated and in the Bank, in the amount of NIS 1.9 million (2015 - NIS 2.2 million consolidated, and NIS 2.0 million in the Bank), and is included in the financial statements under the item for "payroll and associated payables", within the framework of "other liabilities".

D - Other rights

In general, the Bank's employees, including members of management are not entitled to receive increased severance pay upon retirement.

E - Share-based payment

For details regarding shared-based payment transactions, see below in Note 24.

F - Remuneration policy for the years 2014-2016:

1. General

1.1 Officer Remuneration Policy

On July 20, 2014, the general shareholders' meeting of the Bank approved the remuneration policy for the Bank's corporate officers for the years 2014 - 2016, in accordance with section

267A of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"), and in accordance with Proper Banking Management Directive 301A, regarding the remuneration policy of a banking corporation (hereinafter: "Directive 301A"). On August 20, 2015, the general meeting approved an update to the aforementioned remuneration policy (hereinafter: the "Current Remuneration Policy for Corporate Officers").

On August 13, 2015, the Commissioner of Banks published an update to Directive 301A, which primarily determined the following: (a) provisions regarding the reimbursement of variable remuneration which was paid to key employees; (b) A provision stipulating that the remuneration for the Chairman of the Board and the other Board members will be fixed remuneration only. This update applies to the aforementioned corporate officer remuneration policy, in accordance with transitional provisions specified therein (hereinafter: the "Amendment to Directive 301A").

Following the approval of The Remuneration for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permission of Expenses for Tax Purposes with Respect to Extraordinary Remuneration), 5776-2016 (hereinafter: the "Remuneration for Corporate Officers in Financial Corporations Law"), and its expected implications on the amount of remuneration in banking corporations, and the composition thereof, on September 29, 2016, the Commissioner of Banks published an update to Directive 301A, which primarily includes the following provisions: (A) The minimum group of key employees was reduced; (B) The adoption of the change which was implemented to the First Addendum A to the Companies Law (Part B) in the Companies Ordinance (Amendment to the First Addendum A to the Law), 5776 - 2016, with respect to the CEO, and the application thereof also to the other key employees; (3) An increase to the level of variable remuneration which is exempt from the deferral requirement.

The current remuneration policy for corporate officers applies to corporate officers, as this term is defined in the Companies Law, and includes the directors, including the Chairman of the Board, the CEO, management members and corporate officers who are not management members. For the sake of order, it is hereby clarified that the term "corporate officer" below will not include members of the Bank's Board of Directors, except for the Chairman of the Board, who will be considered a corporate officer for the purpose of the corporate officer remuneration policy. It is further noted, for the sake of order, and regarding the terms of tenure and employment of the previous Chairman of the Board, that the terms which apply to him are those which were set forth in an existing agreement signed with him, which is paid through a corporation under his full control, which were approved by the Bank's competent organs, prior to the entry into effect of Amendment 20 to the Companies Law, and therefore, they continued to apply to the previous Chairman of the Board until the end of the agreement with him on September 10, 2015. The current remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and associated benefits), variable remuneration, retirement terms, insurance and indemnification, and applies beginning on January 1, 2014, for a period of three years (2014-2016), i.e., during the reporting year. The new remuneration policy for corporate officers for the years 2017-2019 enters into effect on January 1, 2017, as specified below.

Note 23 - Employee Rights (Cont.)

1.2 Remuneration policy for employees and key employees who are not corporate officers

On July 1, 2014, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, principles regarding the remuneration policy for employees and key employees who are not corporate officers, in accordance with Directive 301A. A detailed policy document, based on the aforementioned principles, was approved by the Bank's Board of Directors on November 11, 2014, following the recommendation of the Remuneration Committee. On July 31, 2015, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, an update to the aforementioned Remuneration Committee (hereinafter: "Current Remuneration Policy for Employees and Key Employees who are not Corporate Officers".

The remuneration policy for employees and key employees who are not corporate officers also applies to key employees, as this term is defined in Directive 301A, who are not corporate officers (hereinafter: "Key Employees Who are not Corporate Officers"). The policy refers to the remuneration terms of the Bank's employees and key employees who are not corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, and retirement terms.

It is noted that the aforementioned amendment to Directive 301A, dated August 13, 2015, applies to the reimbursement of variable remuneration which was paid to a key employee in accordance with and subject to the transitional provisions which were determined therein.

The current remuneration policy for employees and key employees who are not corporate officers enters into effect beginning on January 1, 2014, for a period of three years (2014-2016), in other words, the current policy applies during the reporting year, and beginning on January 1, 2017, the new remuneration policy for employees and key employees who are not corporate officers for the years 2017-2019 enters into effect, as specified below.

The current remuneration policy for corporate officers and the current remuneration policy for employees and key employees who are not corporate officers shall hereinafter jointly be referred to as the "Current Remuneration Policy Documents".

2. Entities responsible for overseeing remuneration in the Bank:

2.1 The Board of Directors' Remuneration Committee is the main entity responsible for supervising the subject of remuneration in the Bank, and its responsibilities on the matter are as defined and specified in the Companies Law, in Directive 301A and in the current remuneration policy documents. The composition of the Remuneration Committee as of the approval date of the financial statements includes Y. Orbach (Chairman) (outside director), S. Eshel (outside director), R. Harmelech (director), R. Arad (outside director) and L. Ben Ami (director); The Remuneration Committee, in its extended composition (according to Proper Banking Management Directive 301 regarding policy and remuneration agreements of all employees, excluding key employees) includes, in addition to the aforementioned members, also the Chairman of the Board, Mr. Z. Nahari.

The Bank's Remuneration Committee and Board of Directors hired the consulting services of PwC Consulting Ltd., in order to receive consulting and accompaniment regarding the preparation and formulation of the remuneration policy for corporate officers, in accordance with the Companies Law and Directive 301A; and the legal consulting services of Yehuda

Raveh & Co. Law Offices and of Ronit Yafeh, Adv., who assisted in reviewing the relevant directives among the directives issued by the Banking Supervision Department, Amendment 20 to the Companies Law and formulation of the current remuneration policy documents.

The current remuneration policy for corporate officers also applies to the directors in the Bank (as of the reporting date, eleven directors serve in the Bank, including the Chairman of the Board) and other corporate officers who are not directors (as of the present date, eleven corporate officers who are not directors serve in the Bank, including the CEO).

2.2 The current remuneration policy for employees and key employees who are not corporate officers applies, as of the date of this report, also to two key employees who are not corporate officers in accordance with the Companies Law, as specified below. The corporate officers in the Bank, as this term is defined in Directive 301A, include the senior position holders listed under this definition in the aforementioned directive; As of the approval date of the financial statements, all of the senior position holders who are listed under this definition are also corporate officers in accordance with the Companies Law, and therefore, are subject to the remuneration policy for corporate officers, excluding the following senior position holders, who are, as stated above, corporate officers, as this term is defined in Directive 301A, but are not senior position holders according to the Companies Law, as follows: (a) the prevention of money laundering supervisor and the compliance officer; (B) The Human Resources Department Manager.

Excluding the corporate officers, as this term is defined in Directive 301A, as stated above, no additional employees were classified in the Bank as other key employees; In accordance with the easement which was published by the Bank of Israel within the framework of the collection of questions and answers regarding the implementation of Directive 301A, on October 29, 2014, according to which, in banks which employ less than 1,000 employees, managers in banks will not be considered key employees in cases where they were considered key employees prior to the publication of the easement only due to the fact that they are managers who report directly to a manager who reports directly to the CEO, and whose cost of salary is higher than NIS 500 thousand, but lower than NIS 1.5 million, insofar as they do not meet the other conditions required under the definition of a key employee, and in accordance with an update to the Directive 301A from September 29, 2016, according to which the group of key employees was restricted, such that there is no obligation to include a manager which reports directly to a manager who reports directly to the CEO. Additionally, and in accordance with the decision of the Bank's Board of Directors, following the recommendation of the Remuneration Committee, and following an evaluation of the activities of various senior position holders in the Bank, no senior position holders were found whose activities could have a significant impact on the Bank's risk profile or groups of employees who are subject to those remuneration arrangements which may cumulatively expose the Bank to significant risk, even if each of the employees separately does not expose the Bank to significant risk. In 2015, and in accordance with the Board of Directors' resolution, the issue was again discussed by the Risk Management Committee, and after the committee evaluated the activities of the Bank's various senior position holders, the committee re-approved the Board of Directors' aforementioned resolution from 2014, which determined that senior position holders had not been identified whose activities may have a material impact on the Bank's risk profile.

Note 23 - Employee Rights (Cont.)

3. Planning and structure of the remuneration processes:

3.1 Characteristics and goals of the current remuneration policy documents:

(a) The goal of the current remuneration policy documents is, inter alia, to establish rules for the manner by which remuneration is provided to corporate officers and key employees who are not corporate officers in the Bank, as adjusted to the Bank's strategic plans, the Bank's work plan, the fulfillment of the Bank's ultimate financial goals, the Bank's profitability and the market conditions, in the long term perspective, through appropriate consideration and balancing of the desire to create appropriate incentives for achieving the Bank's short and long term goals, and increasing the sense of identification with the Bank and its activities.

The current remuneration policy documents were prepared in view of organization-wide considerations, such as the entire remuneration costs and the desired remuneration margins between the various ranks in the Bank, improving the efficiency ratios in the Bank, while emphasizing the moderation of the Bank's fixed costs, the Bank's size and scope of operations, against the desire to ensure fulfillment of the Bank's risk management policy.

(b) The remuneration components specified in the remuneration policy documents include:

- **Fixed remuneration** - this component is intended to remunerate the corporate officers and key employees for the time which they have invested in the performance of their positions, and to maintain them as employees in the Bank, in light of their skills, know-how and expertise, which are appropriate for the Bank's needs, and also to allow the recruitment of a high-quality workforce for the Bank; The salary level will be determined by the competent organs in the Bank, in consideration of their education, skills, expertise, professional experience, achievements, position, areas of responsibility and previous salary agreements which were signed, and the ratio between their terms of tenure and the terms of tenure and employment of the Bank's other employees.
- The fixed remuneration components include: parameters for the determination of the corporate officers' monthly salaries, and the determination of the maximum limit of the monthly salary (in accordance with the scope of the position) for the Chairman, the CEO and the other corporate officers; Details regarding fringe benefits; Fixed annual payment to the CEO and to members of management, in accordance with the decision reached by the Remuneration Committee and the Board of Directors, who will be entitled to provide a payment up to a total of one monthly salary, after a tenure period of at least 4 work years as the CEO and/or as a member of management in the Bank; A signing bonus, in special cases which justify such a bonus, to a new corporate officer in the Bank, restricted to the first year of their work, up to a total of two monthly salaries.
- **Variable remuneration** - variable remuneration is intended, inter alia, to encourage and increase the motivation of corporate officers and key employees who are not corporate officers, to work towards achieving the Bank's goals and objectives, over the long term, while merging their interests with those of the Bank and its shareholders, and while complying with the Bank's risk management policy. The variable remuneration is comprised of a variable annual bonus and the provision of

special bonuses. In general, the variable annual bonus will be based on a mix of indicators which is comprised of return targets, personal targets (KPI's) and qualitative targets.

- The remuneration policy for corporate officers includes the determination of the maximum limit for the variable annual bonus: for the Chairman;[1] for the CEO; and for members of management. The maximum limit of the variable annual bonus for corporate officers who are not members of management was determined within the framework of the remuneration policy for employees and key employees who are not corporate officers.
- **Payments with respect to termination of employment** - in case of dismissal of corporate officers and key employees who are not corporate officers, they will be entitled to receive 100% severance pay, unless the employment agreement of that corporate officer includes a provision specifying that section 14 of the Severance Pay Law, 5723-1963, applies, in which case the above provision will apply. Advance notice period - in accordance with the remuneration policy for corporate officers: Chairman - up to 3 months; CEO - up to 6 months; other corporate officer - up to 3 months; Adjustment bonus according to the terms set forth in the policy: Chairman - up to 3 monthly salaries; CEO - up to 6 monthly salaries; other corporate officer - up to 3 monthly salaries.
- In accordance with Directive 301, remuneration with respect to the termination of employment, beyond that stated in the employment terms, will include taking into account actual performance over time, and the reason for the termination of employment, and the reason for the termination of employment, and will be classified accordingly as variable remuneration, and will be subject to payment postponement arrangements beyond the date of departure, over a minimum period of no less than 3 years.
- The remuneration policy includes the possibility, in case of special considerations, to reduce the variable remuneration in the discretion of the Board of Directors, after the receipt of a recommendation from the Remuneration Committee.
- The remuneration policy includes a stipulation specifying that the corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements. Additionally, and in accordance with the amendment to Directive 301A, provisions were established regarding the reimbursement of a variable bonus, upon the fulfillment of criteria for repayment. The criteria will include, as a minimum, the cases specified in the directive which refer to particularly extraordinary circumstances. Within the framework of the amendment to the Directive 301A, the Bank will also be required to determine the appropriate amount or rate of repayment, in accordance with the different types of circumstances. With respect to key employees, the repayment period will be set as 5 years from the date of provision of the variable

1 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only.

bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, subject to the fulfillment of the conditions specified in the directive, unless the total variable remuneration amount which was provided to the key employee with respect to the calendar year does not exceed 1/6 of the fixed remuneration in that year, and there is no obligation to activate the repayment mechanism.

3.2 During the reporting year, no changes were implemented to the current remuneration policy documents. However, and for the sake of order, it is hereby clarified that on October 27, 2016, the Board of Directors approved a new remuneration policy for employees and key employees who are not corporate officers for the years 2017-2019, and on December 21, 2016, the general meeting of the Bank's shareholders approved a new remuneration policy for the Bank's corporate officers for the years 2017-2019. It is further noted that following the publication of the Remuneration of Corporate Officers in Financial Corporations Law, an update to the maximum variable remuneration limit for the CEO, as presented in the new remuneration policy for corporate officers, will enter into effect beginning in the fourth quarter of 2016, and will replace the variable remuneration limit for the CEO, which applied under the current policy.

3.3 The Bank ensures that employees who work in the risk department and in compliance are compensated independently of the business segments which they oversee, as described below:

(a) With respect to corporate officers and key employees who are not corporate officers, who are responsible for control and monitoring in the Bank, which include, inter alia, employees who are responsible for risk and compliance functions, it was determined that the ratio between the variable remuneration and the fixed remuneration will tend more towards fixed remuneration, relative to this ratio for employees who are not responsible for control and monitoring functions.

(b) Additionally, the current remuneration policy documents include the option to provide an additional variable annual bonus to corporate officers and to key employees who are not corporate officers, who are responsible for the monitoring and reporting function, insofar as they are eligible to receive variable remuneration according to the policy.

4. Description of the methods by which current and future risks are taken into account in the remuneration process:

4.1 The main risks which the Bank takes into account in its implementation of remuneration measures are those specified in the Bank’s “risk appetite” documents, which include: credit risks, financial risks, operational risks, compliance and money laundering risks.

4.2 In order to create a balanced structure of incentives, and to prevent the taking or risks beyond the risk appetite, several methods were established in the current remuneration policy documents by which current and future risks are taken into account in the remuneration process, as specified below:

(a) A maximum limit was established, on a personal basis, for the budget of the annual bonus for each one of the corporate officers and key employees who are not corporate officers; Additionally, a maximum limit was determined for all members of management.

(b) In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration given to a corporate officer and to a key employee who is not a corporate officer will not exceed 100% of the cost of salary for each corporate officer, except in extraordinary cases, as specified in the remuneration policy, with respect to the CEO only.

(c) In accordance with the remuneration policy for corporate officers, in its calculation of the maximum limit for the variable annual bonus which can be provided to the Chairman[2] and the CEO, with respect to the Bank's target reported returns with respect to each year, the Board of Directors will be required, after receiving the recommendation of the Remuneration Committee, to evaluate the fulfillment of the risk indicators which were determined for them, and in accordance with their fulfillment of the risk indicators, the Board of Directors will be required to reduce up to 20% of the maximum limit for the variable annual bonus which was calculated with respect to this target.

(d) Additionally, and in accordance with the remuneration policy documents, the KPI's of the corporate officers and key employees who are not corporate officers will include, inter alia, compliance with the Bank's risk appetite, the Bank's risk indicators, including the compliance risk indicator, the money laundering risk indicator, and operational risks.

Additionally, the Bank's Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policy documents and procedures. The Board of Directors will also verify that the actual remuneration in accordance with the policy documents, the risk indicators, and the results of the risk indicators, are consistent with the planned mechanism, and will implement adjustments to them as needed.As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the remuneration policy do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy.

4.3 Methods by which the risks are taken into account in the determination of variable remunerations are by virtue of the determination of the various maximum limits, for the maximum remuneration amount; Additionally, the risks are taken into account by reducing the remuneration in cases of non-fulfillment of the risk indicators.

4.4 During the reporting year, no changes were implemented to the nature and type of these indicators.

5. The connection between performance during the performance measurement period and remuneration levels

5.1 The Bank's main performance metrics and personal KPI's are as follows:

(a) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

- Fulfillment of the reported rate of return which will be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee for each calendar year with respect to each bonus year, which will be in the range of 8%-8.5% with respect to each year;

2 See footnote 1 above. It is noted that the terms of tenure of the current Chairman include the application of the amendment to Directive 301A, in other words, entitlement to fixed remuneration only.

Note 23 - Employee Rights (Cont.)

- Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year.
- "Reported rate of return" means the average between the (net) annual returns on equity, as reported in the Bank's audited annual financial statements, and the rate of increase of the Bank's equity, as reported in the Bank's audited annual financial statements. Dividends which were announced and paid during the year, and capital issuances, if any, will be neutralized for the purpose of calculating the increase in equity (in other words, will not be taken into account for the purpose of calculating the rate of increase in equity). In the calculation of annual returns, profits originating from non-recurring events will be neutralized (financial profits, such as nostro profits, will not be considered non-recurring), as well as capital gains. For the avoidance of doubt, reported returns will be considered after taking into account the expenses with respect to the payment of bonuses to the Chairman[3], the CEO, corporate officers and employees, including key employees, and after taking into account the expenses with respect to options to the CEO and to other corporate officers (as well as to any other entity, if any), as recorded in the Bank's books.

(b) In general, the variable annual bonus for officers and key employees who are not officers will be based on a mix of indicators which is comprised of return indicators, personal KPI's (key performance indicators) and qualitative targets.

5.2 The manner by which personal remuneration amounts are connected to the Bank's overall performance is by determining preconditions for the payment of the variable bonus, and its maximum amount, in accordance with the return targets; The personal remuneration amount was determined in accordance with the fulfillment of predefined personal KPI's (key performance indicators) and qualitative indicators.

5.3 The variable remuneration which will be provided granted to corporate officers (excluding the Chairman[4]) will be based on their fulfillment of the targets which were established for them, which are associated with the corporation's performance and the personal performance of the corporate officer, as follows:

Targets	CEO	Corporate officers who are not responsible for control and monitoring	Corporate officers who are responsible for control and monitoring
Reported return target, as required by the Bank	80%*	40%	20%
Key performance indicators (KPI's)	-	40%	60%
Qualitative indicators	20%	20%	20%
Total	**100%**	**100%**	**100%**

* The Board of Directors will be authorized to reduce up to 20% of the variable annual bonus which was calculated with respect to this target, due to non-fulfillment of the risk indicators.

3 See footnote 1 above.

4 In accordance with the amendment to Directive 301A, the Chairman of the Board is entitled to fixed remuneration only, and therefore, the Chairman's targets in accordance with the remuneration policy documents.

5.4 The current remuneration policy for corporate officers includes the option to provide a bonus to the corporate officers in special circumstances (excluding the CEO and Chairman), if the Bank has not fulfilled the preconditions for the receipt of an annual bonus. The scope of the total bonus is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

5.5 The current remuneration policy for employees and key employees who are not corporate officers also includes the option to provide a bonus in a year when the actual rate of reported returns is lower than the required rate of reported returns, however, at least by 5%, for key employees who are not corporate officers, in an amount which will not exceed one monthly salary per employee, as stated above, and subject to the maximum limit set forth in the policy.

6. Ways in which the Bank adjusts remuneration in order to take into account longer term performance:

6.1 The current remuneration policy documents specify an arrangement for the distribution of the variable remuneration, an arrangement which reinforces the foundation for the variable component over the long term performance which serves as the basis for the payment of the variable bonus, including an arrangement according to which 50% will be deferred and distributed over 3 years, and its payment will be made contingent upon fulfillment of reported returns of 6.5% or higher regarding the year in which the payment is executed, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks. In the event that, in a certain year, the reported returns are lower than 6.5% and/or the Bank has not fulfilled the required capital adequacy ratio, the deferred remuneration which was supposed to be paid that year, will be canceled. The arrangement applies to all corporate officers and key employees who are not corporate officers. Unless the variable remuneration which has been provided to a corporate officer with respect to the year of the bonus does not exceed one sixth (1/6) of the fixed remuneration of that corporate officer in the same year, in which case it will be necessary to postpone any payment with respect to that variable remuneration.

6.2 The current remuneration policy documents also include a stipulation according to which the corporate officer and key employee who is not a corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements (clawback). Additionally, and in accordance with the amendment to Directive 301A, provisions were determined with respect to the repayment of the variable bonus upon the fulfillment of criteria for repayment, which will include, at a minimum, the cases which were specified in the directive, which refer to highly extraordinary circumstances. With respect to key employees, the repayment period will be set as 5 years from the date of provision of the variable bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, Unless the total variable remuneration amount which was provided to the key employee with respect to the calendar year does not exceed 1/6 of the fixed remuneration in that year, in which case there will be no obligation to activate the repayment mechanism.

Note 23 - Employee Rights (Cont.)

7. Forms of variable remuneration:

7.1 In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration to a corporate officer will not exceed 100% of the cost of salary for each corporate officer, subject to the following provisions.

7.2 In exceptional circumstances, the Board of Directors, following the recommendation of the Remuneration Committee, is entitled to determine, by providing a detailed and specific decision, which will be submitted to the general shareholders' meeting for approval, that the maximum variable remuneration for the CEO will amount to 200% of the fixed remuneration for the CEO.

7.3 The variable remuneration, in accordance with the remuneration policy documents, includes remuneration by way of the payment of cash only, and does not includes stocks or stock-based instruments, and other forms.

7.4 The current remuneration policy documents include the possibility of providing special grants, such as an additional variable annual bonus to the corporate officers who are responsible for the control and reporting functions. A special annual bonus to the Chairman[5], subject to the fulfillment of conditions and limits. Furthermore, the remuneration policy for corporate officers includes the option to provide a bonus to the corporate officers in special circumstances (excluding the CEO and Chairman), if the Bank has not fulfilled the preconditions for the receipt of an annual bonus. The scope of the total bonus is limited to an immaterial amount of NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer. The current remuneration policy for employees and key employees who are not corporate officers also includes the option to provide a bonus in a year when the actual rate of reported returns is lower than the required rate of reported returns, however, at least by 5%, for key employees who are not corporate officers, in an amount which will not exceed one monthly salary per employee, as stated above, and subject to the maximum limit set forth in the policy.

G. Remuneration policy for the years 2017-2019:

1. General:

1.1 Officer remuneration policy for the years 2017-2019

On December 21, 2016, the Bank's general meeting of shareholders approved a new remuneration policy for the Bank's corporate officers for the years 2017-2019 (hereinafter: the "New Remuneration Policy for Corporate Officers"), in accordance with sections 267A and 267B of the Companies Law, Directive 301A and the provisions of the Remuneration For Corporate Officers In Financial Corporations Law.

The new remuneration policy for corporate officers applies to corporate officers, as this term is defined in the Companies Law, and includes the directors, including the Chairman of the Board, the CEO, management members and corporate officers who are not management members. For the sake of order, it is hereby clarified that the term "corporate officer" below will not include members of the Bank's Board of Directors, except for the

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5 See footnote 2 above.

Chairman of the Board, who will be considered a corporate officer for the purpose of the corporate officer remuneration policy.

The new remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and associated benefits), variable remuneration, retirement terms, insurance and indemnification, and applies beginning on January 1, 2017, for a period of three years (2017-2019). It is hereby clarified that during the reporting year, i.e., in 2016, the current remuneration policy for corporate officers applies, as specified above.

1.2 Remuneration policy for employees and key employees who are not corporate officers for the years 2017-2019

On October 27, 2016, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, the remuneration policy for employees and key employees who are not corporate officers, in accordance with Directive 301A. (hereinafter: the "Remuneration Policy For Employees And Key Employees Who Are Not Corporate Officers")

The policy refers to the remuneration terms of the Bank's employees and key employees who are not corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, and retirement terms, and is effective as of January 1, 2017, for a period of three years (2017-2019). It is hereby clarified that during the reporting year, i.e., in 2016, the current remuneration policy for employees and key employees who are not corporate officers for the years 2014-2016 applied, as specified above.

The new remuneration policy for corporate officers and the new remuneration policy for employees and key employees who are not corporate officers shall hereinafter jointly be referred to as the "New Remuneration Policy Documents".

It is noted that the Bank's Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the new remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policies and procedures. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the remuneration policy do not encourage any deviation from the Bank's risk restrictions, or from the Bank's capital policy. Additionally, the Remuneration Committee will perform, once per year, an evaluation of the remuneration mechanism and its operation, including an evaluation of, inter alia, the degree to which the remuneration mechanism complies with the policy established by the Board of Directors.

2. Entities responsible for overseeing remuneration in the Bank:

2.1 The Board of Directors' Remuneration Committee is the main entity responsible for supervising the subject of remuneration in the Bank, and its responsibilities on the matter are as defined and specified in the Companies Law, in Directive 301A and in the remuneration policy documents. The composition of the Remuneration Committee as of the approval date of the financial statements includes Y. Orbach (Chairman) (outside director), S. Eshel (outside director), R. Harmelech (director), R. Arad (director) and L. Ben Ami (director); The Remuneration Committee, in its extended composition (according to Proper Banking Management Directive 301 regarding policy and remuneration agreements of all employees, excluding key employees) includes, in addition to the aforementioned members, also the Chairman of the Board, Mr. Z. Nahari.

The Remuneration Committee and the Board of Directors used the assistance and legal consulting services of Yehuda Raveh & Co. Law Offices and of Ronit Yafeh, Adv., who assisted in reviewing the relevant directives among the directives issued by the Banking Supervision Department, the Companies Law and formulation of the new remuneration policy documents.

The remuneration policy for corporate officers also applies to the directors in the Bank (as of the approval date of this report, eleven directors serve in the Bank, including the Chairman of the Board) and other corporate officers who are not directors (as of the approval date of this report, ten corporate officers who are not directors serve in the Bank, including the CEO).

2.2 The new remuneration policy for employees and key employees who are not corporate officers applies, as of the approval date of this report, also to two key employees who are not corporate officers in accordance with the Companies Law, as specified below. The corporate officers in the Bank, as this term is defined in Directive 301A, include the senior position holders listed under this definition in the aforementioned directive; As of date of this report, all of the senior position holders who are listed under this definition are also corporate officers in accordance with the Companies Law, and therefore, are subject to the new remuneration policy for corporate officers, excluding the following position holders, who are senior position holders, as this term is defined in Directive 301A, but who are not corporate officers in accordance with the Companies Law: (a) the prevention of money laundering supervisor and the compliance officer; (B) The Human Resources Department Manager.

- Excluding the corporate officers, as this term is defined in Directive 301A, as stated above, who are not corporate officers in accordance with the Companies Law, no additional employees were classified in the Bank as other key employees; This is in accordance with the provisions of Proper Banking Management Directive 301A. Additionally, and in accordance with the decision of the Bank's Board of Directors, following the recommendation of the Remuneration Committee, and following an evaluation of the activities of various senior position holders in the Bank, no senior position holders were found whose activities could have a significant impact on the Bank's risk profile or groups of employees who are subject to those remuneration arrangements which may cumulatively expose the Bank to significant risk, even if each of the employees separately does not expose the Bank to significant risk. In 2015, and in accordance with the Board of Directors' resolution, the issue was again discussed by the Risk Management Committee, and after the committee evaluated the activities of the Bank's various senior position holders, the committee re-approved the Board of Directors' aforementioned resolution from 2014, which determined that senior position holders had not been identified whose activities may have a material impact on the Bank's risk profile.

3. Planning and structure of the remuneration processes

3.1 Characteristics and goals of the remuneration policy documents:

(A) The goal of the remuneration policy documents is, inter alia, to establish rules for the manner by which remuneration is provided to corporate officers and key employees who are not corporate officers in the Bank, as adjusted to the Bank's strategic plans, the Bank's work plan, the fulfillment of the Bank's strategic financial goals, which are determined from time to time in the Bank's strategy discussions, the Bank's profitability and the market conditions, in the long term perspective, through appropriate consideration and balancing of the desire to create appropriate incentives for achieving the Bank's short and long term goals, and increasing the sense of identification with the Bank and its activities.

The remuneration policy documents were prepared in view of organization-wide considerations, such as the entire remuneration costs and the desired remuneration margins between the various ranks in the Bank, improving the efficiency ratios in the Bank, while emphasizing the moderation of the Bank's fixed costs, the Bank's size and scope of operations, against the desire to ensure fulfillment of the Bank's risk management policy.

(B) The remuneration components specified in the remuneration policy documents include:

- **Fixed remuneration** - this component is intended to remunerate the corporate officers, employees and key employees for the time which they have invested in the performance of their positions, and to maintain them as employees in the Bank, in light of their skills, know-how and expertise, which are appropriate for the Bank's needs, and also to allow the recruitment of a high-quality workforce for the Bank; The salary level will be determined by the competent organs in the Bank, in consideration of their education, skills, expertise, professional experience, achievements, position, areas of responsibility and previous salary agreements which were signed, and the ratio between their terms of tenure and the terms of tenure and employment of the Bank's other employees.

  The fixed remuneration components include: parameters for the determination of the monthly salaries of employees, key employees who are not corporate officers, and corporate officers, and the determination of the maximum limit of the monthly salary (in accordance with the scope of the position) for the Chairman and the CEO; Details regarding fringe benefits; Fixed annual payment to the CEO and to members of management, in accordance with the decision reached by the Remuneration Committee and the Board of Directors, who will be entitled to provide a payment up to a total of one monthly salary, after a tenure period of at least 4 work years as the CEO and/or as a member of management in the Bank; A signing bonus, in special cases which justify such a bonus, to a new corporate officer in the Bank, restricted to the first year of their work, up to a total of two monthly salaries.

- **Variable remuneration** - variable remuneration is intended, inter alia, to encourage and increase the motivation of employees, key employees who are not corporate officers, and corporate officers, to work towards achieving the Bank's goals and objectives, over the long term, while merging their interests with those of the Bank and its shareholders, and while complying with the Bank's risk management policy. The variable remuneration is comprised of a variable annual bonus and the provision of special bonuses. In general, the variable annual bonus will be based on a series of indicators which is comprised of the fulfillment of personal targets, the performance of the unit in the Bank for which the corporate officer is responsible, and the performance of the Bank as a whole, and as specified in section 5.3 below. The remuneration policy for corporate officers specifies the maximum limit for the variable annual bonus for each of the following individuals: the CEO, members of management, and corporate officers who are not members of management.

- **Payments with respect to termination of employment** - in case of dismissal of corporate officers and key employees who are not corporate officers, they will be entitled to receive 100% severance pay, unless the employment agreement of that corporate officer or key employee who is not a corporate officers includes a provision specifying that section 14 of the Severance Pay Law, 5723-1963, applies, in which case the above provision will apply. Advance notice period - in accordance with the remuneration policy for corporate officers: Chairman - up to 3 months; CEO - up to 6 months; corporate officer - up to 3 months; Adjustment bonus according to the terms set forth in the policy documents: Chairman - up to 3 monthly salaries; CEO - up to 6 monthly salaries; corporate officer - up to 3 monthly salaries.
- In accordance with Directive 301, remuneration with respect to the termination of employment, beyond that stated in the employment terms, will include taking into account actual performance over time, and the reason for the termination of employment, and the reason for the termination of employment, and will be classified accordingly as variable remuneration, and will be subject to payment postponement arrangements beyond the date of departure, over a minimum period of no less than 3 years.
- The remuneration policy documents includes the possibility, in case of special considerations, to reduce the variable remuneration in the discretion of the Board of Directors, after the receipt of a recommendation from the Remuneration Committee.
- The remuneration policy documents include a stipulation specifying that the employee and/or key employee who is not a corporate officer and/or corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements. Additionally, a stipulation was added according to which any variable remuneration will be granted and paid subject to the condition that it is repayable upon the fulfillment of certain defined criteria which are defined in the remuneration policy documents. With respect to key employees, the repayment period will be set as 5 years from the date of provision of the variable remuneration. Regarding key employees who are

corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, The Bank's Board of Directors, after receiving the recommendation of the Remuneration Committee, will be entitled to extend the repayment period beyond the additional two years, insofar as the relevant investigation has not yet concluded, and the extent of the corporate officer's liability has not yet been determined.

3.2 The Bank ensures that employees who are engaged in the field of risks and compliance are compensated independently of the business areas which they oversee, in the following manner: With respect to corporate officers who are responsible for control and monitoring in the Bank, who include, inter alia, corporate officers who are responsible for risk and compliance functions, it was determined that the ratio between the variable remuneration and the fixed remuneration will tend more towards fixed remuneration, relative to this ratio for employees who are not responsible for control and monitoring functions.

4. Description of the methods by which current and future risks are taken into account in the remuneration process:

4.1 The main risks which the Bank takes into account in its implementation of remuneration measures are those specified in the Bank's "risk appetite" documents, which include: credit risks, financial risks, operational risks, compliance and money laundering risks.

4.2 In order to create a balanced structure of incentives, and to prevent the taking or risks beyond the risk appetite, several methods were established in the new remuneration policy documents by which current and future risks are taken into account in the remuneration process, as specified below:

(a) A maximum limit was determined for the variable payment, the budget limit for the variable annual bonus was determined as a general limit for all of the corporate officers, according to absolute monetary values. divided into 3 categories: (1) Corporate officers who are not responsible for control and monitoring; (2) Corporate officers who are not responsible for control and monitoring; (3) Corporate officers who are not management members. Additionally, a maximum limit was determined regarding the payment of the variable annual bonus to the CEO. Additionally, a maximum limit was determined regarding the payment of a variable annual bonus to any of the corporate officers, distributed by the groups presented above, in terms of a number of average monthly salaries. A maximum limit was also defined for all employees (who are non-nostro employees), including to key employees who are not corporate officers.

(b) In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration given to a corporate officer and to a key employee who is not a corporate officer will not exceed 100% of the cost of salary for each corporate officer.

(c) In accordance with the new remuneration policy documents, the fulfillment of the personal targets which will be determined for the corporate officers will include, inter alia, an evaluation of the fulfillment of the Bank's risk appetite, as determined by the Board of Directors, fulfillment of the Bank's risk indicators, including compliance with laws and regulatory directives, and fulfillment of the risk indicator regarding money laundering and operational risks.

Additionally, the Bank's Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the new remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policy documents and procedures. The Board of Directors will also verify that the actual remuneration in accordance with the new remuneration policy documents, the risk indicators, and the results of the risk indicators, are consistent with the planned mechanism, and will implement adjustments to them as needed. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the new remuneration policy documents do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy.

4.3 Methods by which the risks are taken into account in the determination of variable remunerations are by virtue of the determination of the various maximum limits, for the maximum remuneration amount; Additionally, the risks are taken into account by reducing the remuneration in cases of non-fulfillment of the risk indicators.

5. The connection between performance during the performance measurement period and remuneration levels

5.1 The Bank's main performance metrics and personal KPI's are as follows:

(a) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

- Fulfillment of the following rates of return: 2017 - 7.8%; 2018 - 8.25%; 2019 - 8.25% (hereinafter: "Minimum Rate Of Return")
- Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year and the outline which was established by the Board of Directors for the purpose of fulfilling the capital adequacy ratios.

"**Rate of return**" means comprehensive income, as reported in the Bank's audited financial statements, relative to average equity, as defined in the directives issued by the Commissioner of Banks - public reporting regulations, directive no. 620. In the calculation of the rate of return, profits / losses which are due to non-recurring events will be neutralized (financial profits / losses, such as nostro, will not be considered as non-recurring), as well as capital profits / losses, in the discretion of the Board of Directors. For the avoidance of doubt, comprehensive income after offsetting the expenses with respect to the payment of bonuses to the CEO, corporate officers and employees, including key employees, and after taking into account the expenses with respect to options for corporate officers (and for any other entity, if any), as these have been recorded, or will be recorded, in the Bank's books. Neutralization of profits / losses which are due to non-recurring events, capital profits / losses will be neutralized in the discretion of the Board of Directors.

In general, the variable annual bonus to corporate officers and key employees who are not corporate officers will be based on the provision of remuneration of up to three monthly salaries, subject to discretion, which will be based, inter alia, on the combined performance of the following: the performance of the corporate officer, the performance of the unit in the Bank to which the corporate officer belongs, and the performance of the Bank as a whole. Additionally, the Remuneration Committee and the Board of Directors will be entitled to grant to the corporate officers additional variable bonuses, beyond the aforementioned 3 monthly salaries, up to the maximum limit for the annual bonus which was determined for the corporate officer, according to measurable parameters which will be determined proximate to the commencement of each bonus year, where such indicators will include various targets.

5.2 The manner by which personal remuneration amounts are connected to the Bank's overall performance is by determining preconditions for the payment of the variable bonus, and the maximum amount of the bonus which can be granted; The personal remuneration amount was determined in accordance with the fulfillment of predefined personal key performance indicators and measurable indicators.

5.3 The variable remuneration which will be provided granted to corporate officers (excluding the Chairman) will be based on their fulfillment of the targets which were established for them, which are associated with the corporation's performance and the personal performance of the corporate officer, as follows:

(a) CEO:

- Provision of up to 3 monthly salaries, subject to discretion, which will be based, inter alia, on a combination of the performance of the CEO and the performance of the Bank as a whole.
- Additionally, the Remuneration Committee and the Board of Directors will be entitled to allocate to the CEO an additional variable annual bonus, beyond the 3 salaries specified above, up to the maximum limit for the variable annual bonus, according to measurable parameters which will be determined proximate to the commencement of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee.
- It is noted that, in accordance with and subject to the new remuneration policy for corporate officers, the directives issued by the Commissioner of Banks and the provisions of the Law Regarding Remuneration for Corporate Officers in Financial Corporations, the limit of the variable annual bonus (minimum, maximum), respectively, to which the CEO will be entitled with respect to a certain calendar year, will be between NIS 300,000 and NIS 700,000.

(b) Corporate officers:

- Provision of up to 3 monthly salaries, subject to discretion, which will be based, inter alia, on a combination of the performance of the corporate officer, the performance of the unit in the Bank to which the corporate officer belongs, and the performance of the Bank as a whole.
- Additionally, the Remuneration Committee and the Board of Directors will be entitled to allocate to the corporate officer an additional variable annual bonus, beyond the 3 salaries specified above, up to the maximum limit for the variable annual bonus, according to measurable parameters which will be determined proximate to the commencement of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee.

Note 23 - Employee Rights (Cont.)

5.4 The new remuneration policy for corporate officers includes an option to provide a bonus in special circumstances to the corporate officers (excluding the CEO and the Chairman) in a year when the actual rate of return was lower than the minimum rate of return, but no less than a rate of return of 6%, and subject to the fulfillment of the required capital adequacy ratios in accordance with the directives of the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital ratios. The scope of the total bonus, as stated above, is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

5.5 The new remuneration policy for employees and key employees who are not corporate officers allows the provision of a bonus for outstanding employees and key employees, in the following manner (at the start of each year, the CEO will be required to present for approval to the Remuneration Committee the principles regarding the distribution of a bonus to employees and key employees):

The Bank's CEO will be entitled to provide a bonus to outstanding employees and key employees, in an amount which will not exceed NIS 1,150,000, subject to the following conditions:

(a) Up to 40% of the bonus amount will be distributed throughout the bonus year, in accordance with targets which will be determined by the CEO, in order to encourage the employees towards excellence, subject to the fulfillment of the required capital adequacy ratios in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios.

(b) The balance of the outstanding bonus amount will be distributed only if variable annual remuneration has not been distributed, since the Bank has not fulfilled the minimum conditions, subject to the following conditions: an annual rate of return, during the bonus year, which is no less than a rate of return of 6%; Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year and the outline which was established by the Board of Directors for the purpose of fulfilling the capital adequacy ratios; The distribution of the balance of the bonus amount will be distributed to up to 20% of the employees and key employees who are not dealers and/or nostro employees; The bonus will be distributed up to one monthly salary per employee, including to a key employee, and no more than NIS 20,000 per employee, including to a key employee.

6. Ways in which the Bank adjusts remuneration in order to take into account longer term performance:

6.1 The new remuneration policy documents specify an arrangement for the distribution of the variable remuneration, an arrangement which reinforces the foundation for the variable component over the long term performance which serves as the basis for the payment of the variable bonus, including an arrangement according to which, insofar as the variable remuneration which was provided to the corporate officer does not exceed 40% of the fixed remuneration of that corporate officer, the distribution and postponement of the variable remuneration will be implemented as follows: 40% will be deferred and distributed over two years, in a straight line, and the execution of each payment will be made contingent upon fulfillment of a rate of return of 6% or higher regarding the year in which the payment is to be paid, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the purpose of fulfilling the capital adequacy ratios. In the event that, in a certain year, the rate of return is lower than 6%, and/or the Bank has not fulfilled the capital adequacy ratio and the outline which was determined by thew Board of Directors for the fulfillment of the capital adequacy ratios, the deferred payment will not be paid, and will be postponed to the following year (hereinafter: the "Updated Payment Date"). In case the rate of return in the financial statements which are published shortly before the updated payment date is lower than a rate of return of 6% and/or the Bank has not fulfilled the required capital adequacy ratios and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios, that part of the postponed variable bonus will be canceled, and the corporate officer will not be entitled to receive it.

6.2 Insofar as the variable remuneration which was provided to the corporate officer exceeds 40% of the fixed remuneration of that corporate officer, the distribution and postponement of the variable remuneration will be implemented as follows: 50% of the variable remuneration will be deferred and distributed over three years, in a straight line, and the execution of each payment will be made contingent upon fulfillment of a rate of return of 6% or higher regarding the year in which the payment is to be paid, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the purpose of fulfilling the capital adequacy ratios. In the event that, in a certain year, the rate of return is lower than 6%, and/or the Bank has not fulfilled the capital adequacy ratio and the outline which was determined by thew Board of Directors for the fulfillment of the capital adequacy ratios, the deferred payment will not be paid, and will be postponed to the following year (hereinafter: the "Updated Payment Date"). In case the rate of return in the financial statements which are published shortly before the updated payment date is lower than a rate of return of 6% and/or the Bank the required capital adequacy ratios and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios, that part of the postponed variable bonus will be canceled, and the corporate officer will not be entitled to receive it.

The arrangement applies to all corporate officers and key employees who are not corporate officers. Unless the variable remuneration which has been provided to a corporate officer and/or key employee who is not a corporate officer with respect to the year of the bonus does not exceed one sixth (1/6) of the fixed remuneration of that corporate officer and/or key employee who is not a corporate officer in the same year, in which case the Remuneration Committee and the Board of Directors will be entitled to decide that it is not necessary to postpone any payment with respect to that variable remuneration.

6.3 The remuneration policy documents also include a stipulation according to which the corporate officer, employee and key employee who is not a corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements (clawback). Additionally, a stipulation was added according to which any variable remuneration will be granted and paid subject to the condition that it is repayable upon the fulfillment of certain defined criteria which are defined in the new remuneration policy. With respect to employees and key employees who are not corporate officers, the repayment period will be set as 5 years from the date of provision of the variable bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, The Bank's Board of Directors, after receiving the recommendation of the Remuneration Committee, will be entitled to extend the repayment period beyond the additional two years, insofar as the relevant investigation has not yet concluded, and the extent of the corporate officer's liability has not yet been determined.

7. Forms of variable remuneration:

7.1 In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration to a corporate officer will not exceed 100% of the cost of salary for each corporate officer, subject to the following provisions, and the restrictions and rules set forth in The Remuneration for Corporate Officers in Financial Corporations Law.

7.2 The variable remuneration, in accordance with the remuneration policy documents, includes remuneration by way of the payment of cash only, and does not includes stocks or stock-based instruments, and other forms.

7.3 Beyond the annual variable remuneration, as specified extensively above, the remuneration policy documents include an option to provide special bonuses, such as:

(A) A bonus in special circumstances to the corporate officers (excluding the Chairman and the CEO) - the Remuneration Committee and the Board of Directors are entitled to provide a bonus in special circumstances to corporate officers, as stated above, in a year when the actual rate of return is lower than the minimum rate of return, but no less than a rate of return of 6%, and subject to the fulfillment of the capital adequacy ratios which are required in accordance with the directives of the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital ratios. The scope of the total bonus is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

(B) Bonuses to outstanding employees and key employees (at the start of each year, the CEO will be required to present for approval to the Remuneration Committee the principles for the distribution of the bonuses to outstanding employees and key employees): The Bank's CEO will be entitled to provide a bonus to outstanding employees and key employees in an amount which will not exceed NIS 1,150,000, subject to the conditions specified in section 5.5. above.

In 2016, the Remuneration Committee convened 18 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 202,104.63 thousand.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

	As of December 31	
	2016	**2015**
Severance pay		
Liability amount	**62.1**	57.8
Fair value of plan assets	**62.3**	58.7
Surplus of liability on plan assets	**(0.2)**	(0.9)
Surplus of the liability which was included under the item for "other liabilities"	**-**	-
Surplus of plan assets included under the item for "other assets"	**0.2**	0.9
Other benefits*		
Liability amount	**5.2**	5.5
Fair value of plan assets	**-**	-
Surplus of liability on plan assets	**5.2**	5.5
Surplus of the liability which was included under the item for "other liabilities"	**5.2**	5.5
Surplus of plan assets included under the item for "other assets"	**-**	-
Total		
Surplus of the liability with respect to employee benefits on plan assets, included under the item for "other liabilities"	**5.2**	5.5
Surplus of plan assets over the liability with respect to employee benefits which was included under the item for "other assets"	**0.2**	0.9

* Primarily includes provisions for vacation and jubilee bonus

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans

1. Liabilities and financial position

	For the year ended December 31	
	2016	**2015**
A. Change in liability with respect to expected benefit		
Liability with respect to expected benefit (reserve for retirement pay) at start of period	**57.8**	54.4
Cost of service	**3.5**	3.4
Cost of interest	**1.8**	1.9
Deposits of plan participants		
Actuarial loss (gains)	**(0.4)**	(0.4)
Benefits paid	**(0.6)**	(1.5)
Liability with respect to expected benefit (reserve for retirement pay) at end of period	**62.1**	57.8
Liability with respect to cumulative benefit at end of period	**59.8**	55.7
B. Change in the fair value of plan assets and the plan's financial position		
Fair value of plan assets at start of period	**58.7**	56.6
Actual return on plan assets	**0.6**	-
Deposits to the plan by the banking corporation	**3.6**	3.5
Benefits paid	**(0.6)**	(1.4)
Fair value of plan assets (provision for retirement pay) at end of period	**62.3**	58.7
Financing condition - net asset (liability) recognized at end of period	**0.2**	**0.9**
C. Amounts recognized in the consolidated balance sheet		
Amounts recognized under other assets	**0.2**	0.9
Amounts which were recognized under the item for other liabilities	**-**	-
Net asset (liability) which was recognized at the end of the period	**0.2**	0.9
D. Amounts recognized under accumulated other comprehensive income (loss) before tax impact		
Net actuarial gains	**2.3**	2.4
Net liability with respect to the transition	**(1.3)**	(1.3)
Net cost (credit) with respect to previous service	**-**	-
Closing balance of accumulated other comprehensive income	**1.0**	**1.1**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

2. Expenses for the period

	For the year ended December 31		
	2016	**2015**	**2014**
A. Net components of the benefit cost which were recognized under profit and loss			
Cost of service	**3.5**	3.4	3.9
Cost of interest	**1.8**	1.9	2.5
Projected returns on plan assets	**(0.7)**	(1.5)	(0.9)
Amortization of unrecognized amounts:			
Net actuarial gains (loss) for the period	**(0.3)**	(0.4)	(0.5)
Net liability (asset) with respect to transition [(1)]	**-**	(0.3)	-
Total amortization of unrecognized amounts	**(0.3)**	(0.7)	(0.5)
Total cost of the benefit, net	**4.3**	**3.1**	**5.0**
B. Changes in plan assets and in liabilities for benefits which were recognized under comprehensive income (loss) before tax impact			
Net actuarial gains for the period	**(0.3)**	0.7	0.2
Amortization of actuarial profit (loss)	**0.3**	0.4	0.5
Amortization of net liability (asset) with respect to transition	**-**	(0.2)	-
Total amount recognized under other comprehensive income	**-**	**0.9**	**0.7**
Total net cost of the benefit	**4.3**	**3.1**	**5.0**
Total amount recognized in the cost of the benefit, net for the period, and under other comprehensive income	**4.3**	**4.0**	**5.7**

C. Estimated amounts included under accumulated other comprehensive income which are expected to be amortized for accumulated other comprehensive income to the statement of income as an expense (income) in 2016, before tax effect	
Net actuarial gains (loss) for the period	(0.3)
Net asset (liability) with respect to transition	-
Net cost (credit) with respect to previous service	-
Total amount expected to be amortized from accumulated other comprehensive income	**(0.3)**

(1) Amortization of actuarial gains which are due to changes in the discount rate or actuarial gains or losses which are not due to changes in the discount rate are all as defined on January 1, 2013 (date of the initial application of generally accepted accounting principles for banks in the United States, with respect to employee rights) and which were included under accumulated other comprehensive income.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

3. Assumptions

A. Assumptions on a weighted average basis which are used to determine the liability with respect to the benefit and to measure the net benefit cost for the year that ended

	As of December 31	
	2016	**2015**
1. Main assumptions used in the determination of the liability with respect to the benefit		
Discount rate	**1.6%**	1.6%
CPI rate of increase	**1.5%**	1.5%
Churn rate	**9.0%**	9.0%
Real rate of increase in remuneration	**1.0%**	1.0%
2. Main assumptions used in the measurement of the net benefit cost for the period		
Discount rate	**1.5%**	1.5%
Projected long term returns on plan assets	**2.4%**	3.3%
Real rate of increase in remuneration	**1.0%**	1.0%

B. Impact of a change of percentage point on the liability with respect to the expected benefit, before tax impact *

	Increase of one percentage point		Decrease of one percentage point	
	As of December 31			
	2016	**2015**	**2016**	**2015**
Discount rate	**(10.3)**	(8.7)	**12.6**	10.0
Churn rate	**0.1**	0.1	**(0.1)**	(0.1)
Rate of increase in remuneration	**13.3**	10.6	**(10.8)**	(9.1)

* The sensitivity analysis is provided only with respect to assumptions which have a significant impact on the liability.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets

A. Composition of fair value of plan assets

	As of December 31							
	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset type								
Cash and deposits in banks	0.2	-	-	0.2	0.1	0.1	-	0.2
Stocks	20.1	-	-	20.1	20.6	-	-	20.6
Bonds:		-	-					
Government	8.2	-	-	8.2	5.8	-	-	5.8
Corporate	6.1	5.8	13.1	25.0	8.5	6.1	9.5	24.1
Total bonds	**14.3**	**5.8**	**13.1**	**33.2**	**14.3**	**6.1**	**9.5**	**29.9**
Other	0.5	0.3	8.0	8.8	0.4	0.4	7.2	8.0
Total	**35.1**	**6.1**	**21.1**	**62.3**	**35.4**	**6.6**	**16.7**	**58.7**

B. Fair value of plan assets according to asset type and allocation target for 2016

	Allocation target	% of plan assets	
	As of December 31		
	2017	2016	2015
Cash and deposits in banks	0%-30%	0.3%	0.0%
Stocks	30%-42%	32.3%	35.0%
Bonds:			
Government	3%-15%	13.1%	10.0%
Corporate	29%-53%	40.1%	41.0%
Total bonds	**32%-68%**	**53.2%**	**51.0%**
Other	10%-38%	14.2%	14.0%
Total	**100.0%**	**100.0%**	**100.0%**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets (Cont.)

	Movement in 2016				
	Actual return on plan assets				
	Opening balance	Realized profits / (losses)	Unrealized profits / (losses)	Acquisitions, sales and settlements, net	Closing balance
Corporate	9.5	-	0.9	2.7	13.1
Other	7.2	-	0.2	0.6	8.0
Total	**16.7**	**-**	**1.1**	**3.3**	**21.1**

	Movement in 2015				
	Actual return on plan assets				
	Opening balance	Realized profits / (losses)	Unrealized profits / (losses)	Acquisitions, sales and settlements, net	Closing balance
Corporate	8.0	-	0.3	1.2	9.5
Other	5.7	-	0.2	1.3	7.2
Total	**13.7**	**-**	**0.5**	**2.5**	**16.7**

5. Cash flows

	Actual deposits		
	Forecast *	For the year ended December 31	
	2017	2016	2015
A. Deposits			
Deposits	3.7	3.6	3.5

* Estimate of deposits to be paid to the defined benefit plan in the current fiscal year.

B. Benefits which the Bank expects to pay in the future, by years	
2017	6.2
2018	5.4
2019	5.9
2020	4.9
2021-2025	20
2026 and thereafter	27
Total	**69.4**

Note 24 - Share Based Payment Transactions

1. Previous CEO of the Bank

In accordance with the employment terms of the former CEO, Mr. Uriel Paz, concluded his tenure as the Bank's CEO on October 31, 2015. Mr. Paz was entitled to two types of options - type A unit and type B units. The amount of type A option units will change in accordance with the returns of the Bank's stock.

In case of termination of the employer - employee relationship between the Bank and Mr. Uriel Paz, the options which vested will be exercisable within 180 days after the date of termination of the employer - employee relationship, after which they will expire. Mr. Paz concluded his tenure as the Bank's CEO on October 31, 2015, and did not exercise the options which vested within the aforementioned period, and accordingly, all of the allocated options expired on April 30, 2016. In the Bank's financial statements as of December 31, 2016 and 2015, receipts were not recorded with respect to options to the Bank's previous CEO. The estimated economic value of the options, which was calculated by an external valuer, according to the binomial model, is estimated at approximately NIS 4.2 million, which were classified upon the expiration of the options as a premium.

2. Executives

A. As of the date of this report, two of the Bank's executives have phantom units (Class A and Class B) which were provided to them in accordance with a plan for the allocation of phantom units, which was approved by the Bank's Board of Directors on November 29, 2011 (hereinafter: the "Managers" and the "Plan"). The balance of units which were allocated in accordance with the plan to other managers expired upon the termination of the employer - employee relationship with them, in accordance with the provisions of the plan.

B. The units were provided without consideration. Each phantom unit confers upon the managers the right to receive, after exercise, a consideration which will reflect the difference between the average price of the Bank's share in the 30 business days which preceded the exercise date, and the exercise addition. The phantom units will be exercisable for a period of 48 months after the vesting date of each tranche, subject to the provisions of the options plan.

C. As of the date of this report, the two executives specified above remain with 3 tranches (out of 4) which are exercisable in an immaterial scope.

Note 25A - Equity

A. The Bank's registered share capital as of December 31, 2016 is comprised of 100,250,000 ordinary shares with a par value of NIS 1 each (as of December 31, 2015 - similar). Issued and paid-up capital as of December 31, 2016 - 70,517,741 shares listed for trading on the Tel Aviv Stock Exchange (as of December 31, 2015 - similar).

The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Dividends

1. Policy and restrictions regarding dividend distributions

On August 29, 2013, the Bank's Board of Directors resolved to adopt a dividend distribution policy of up to 30% of the Bank's net profit in each year.

However, the considerations regarding a dividend and its actual distribution, if any, will be affected by the requirement to meet the updated capital targets, as specified in by the Board of Directors and are subject to the directives issued by the Commissioner of Banks, which will be determined from time to time, and in accordance with the provisions of the law.

A dividend distribution will be performed subject to the provisions of the Companies Law, 5759 - 1999, and Proper Banking Management Directive 331, on the subject of dividend distributions in banking corporations.

In the letter of the Banking Supervision Department on the subject of Basel III - minimum core capital ratios, the banks were required, inter alia, to refrain from dividend distributions if they may cause it not to fulfill the capital targets which were determined therein (for additional details, see Note 25B below).

In certain cases, the Bank can distribute dividends even upon the fulfillment of the aforementioned circumstances, if it has received advance written approval from the Commissioner of Banks for the distribution, and up to the amount which was approved, as stated above.

The above regarding a dividend distribution will not create any undertaking whatsoever towards any third party whatsoever (including with respect to dividend payment dates and/or rates).

The above information regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervised and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

2. Dividend distributions

Presented below are details regarding dividend distributions in the Bank during the years 2014-2016:

Year	NIS millions
2016	13.8
2015	17.1
2014	17.7

On January 31, 2017, the Bank's Board of Directors resolved to distribute interim dividends in cash in the amount of NIS 3million. The dividend, in the amount of NIS 0.042542 per ordinary share with a par value of NIS 1, was paid on February 21, 2017, to shareholders who held the Bank's shares on February 8, 2017 (the effective date).

Note 25B - Equity - Capital Adequacy, Leveraging and Liquidity in Accordance with Directives Issued by the Commissioner of Banks

Reported amounts in millions of NIS

Calculated in accordance with Proper Bank Management Directives 201-211 and Directive 299, regarding "Measurement and capital adequacy".

	As of December 31	
	2016	**2015**
A. Consolidated data		
1 - Capital for the calculation of capital ratio		
Tier 1 capital, after supervised adjustments and deductions	**800.4**	778.6
Additional Tier 1 capital, after deductions	**-**	-
Tier 2 capital, after deductions	**352.1**	292.1
Total Total capital	**1,152.5**	1,070.7
2 - Weighted balances of risk assets		
Credit risk	**7,148.4**	7,201.1
Market risks	**21.2**	72.0
Operational risk	**753.9**	740.7
Total weighted balances of risk assets	**7,923.5**	8,013.8
3 - Ratio of capital to risk components		
Ratio of Tier 1 capital to risk components	**10.1%**	9.7%
Ratio of total capital to risk components	**14.5%**	13.4%
Ratio of minimum Tier 1 capital required by the Commissioner of Banks (1)	**9.8%**	9.3%
Ratio of minimum total capital required by the Commissioner of Banks (1)	**13.3%**	12.8%
B. Capital components for the purpose of calculating the capital ratio (in consolidated figures)		
1 - Tier 1 capital		
Equity	**808.3**	784.0
Differences between equity and Tier 1 capital	**-**	-
Total Tier 1 capital, before supervised adjustments and deductions	**808.3**	784.0
Supervised adjustments and deductions:		
Goodwill and intangible assets	**0.8**	1.2
Deferred taxes receivable	**7.1**	4.2
After supervised adjustments and deductions - Tier 1 capital	**-**	-
Total supervised adjustments and other deductions - Tier 1 capital	**7.9**	5.4
Total Tier 1 capital, after supervised adjustments and deductions	**800.4**	778.6
2 - Tier 2 capital		
Tier 2 capital: instruments, before deductions	**263.3**	201.1
Tier 2 capital: provisions, before deductions	**88.8**	91.0
Total Tier 2 capital, before deductions	**352.1**	292.1
Deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**352.1**	292.1

Remarks at end of note

Note 25B - Capital Adequacy, Liquidity and Leveraging in Accordance with the Directives issued by the Commissioner of Banks (Cont.)

	As of December 31	
	2016	**2015**
C. Impact of the transitional provisions on Tier I capital		
Ratio of Tier I capital to the risk components, before the implementation of the effect of the transitional provisions (2)(3)	**10.0%**	9.7%
Impact of the transitional provisions	**0.1%**	-
Ratio of Tier I capital to risk components	**10.1%**	9.7%

D. Liquidity coverage ratio (LCR) according to the directives issued by the Commissioner of Banks

The liquidity coverage ratio is calculated in accordance with Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio.

For the three months ended December 31		
	2016	**2015**
	In percent	
Liquidity coverage ratio (4)	458%	403%
Minimum liquidity coverage ratio required by the Commissioner of Banks	100%	100%

E.Leveraging ratio in accordance with the directives issued by the Commissioner of Banks

The leveraging ratio is calculated in accordance with Proper Banking Management Directive 218, on the subject of the leveraging ratio.

	As of December 31	
	2016	**2015**
	In percent	
Tier I capital	800.4	778.6
Total exposures	14,973.1	14,989.5
Leveraging ratio	**5.3%**	**5.2%**
Minimum leveraging ratio required by the Commissioner of Banks	5.0%	5.0%

(1) The capital ratios which are required by the Commissioner of Banks on January 1, 2015, plus a capital requirement reflecting 1% of the balance of housing loans on the reporting date. This requirement is being applied gradually from April 1, 2015 to January 1, 2017. Accordingly, the ratio of minimum Tier I capital ratio which will be required by the Commissioner of Banks as of January 1, 2017, on a consolidated basis, according to the data as of the reporting date, is 9.9% and 13.4%, respectively.
(2) As of the balance sheet date, there is no impact due to the increased efficiency plan.
(3) Including the impact of generally accepted accounting principles in the United States with respect to employee rights.
(4) The information is presented in terms of simple averages of daily observations during the reported quarter.

Note 26 - Contingent Liabilities and Special Engagements

Reported amounts in millions of NIS

A - Off-balance sheet engagement with respect to activity according to collection rate (1)

	As of December 31	
	2016	**2015**
Balance of credit from deposits by collection rate (2)		
CPI-linked Israeli currency	**910.3**	1,110.2
Unlinked Israeli currency	**44.2**	42.4
Total	**954.5**	1,152.6
Information regarding the provision of loans during the year		
Loans from deposits by collection rate	**0.9**	2.5
Current loans	**1.2**	1.9
Total	**2.1**	4.4

	As of December 31						
	2016						2015
	Up to 1 Year	1 Year Up to 3 Years	Over 3 Up to 5 Years	Over 5 Up to 10 Years	Over 10 Up to 20 Years	Total	Total
Flows with respect to fee collection and interest margins, with respect to activity by collection rate (3)							
Future contractual cash flows	10.2	19.2	14.0	14.4	1.3	59.1	74.3
Discounted expected cash flows (4),(5)	9.8	17.6	12.0	11.1	0.8	51.3	66.8

(1) Credits and deposits from deposits whose repayment to the depositor is conditional upon the collection of credits, with the collection fees.
(2) Pending loans and government deposits given for them, in the amount of NIS 52.6 million (2015 - NIS 91.3 million), were not included in this note.
(3) Includes the foreign currency segment and the unlinked NIS segment, which does not exceed 10% of the total deposits, according to collection degree.
(4) Discounting was performed according to a rate of 3.67% (2015 - 2.55%).
(5) These data do not take into account the estimate of early repayments.

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

B. Legal claims

1. **General**

   The Bank is party to legal proceedings, including motions to approve class actions which its customers or former customers have initiated against it, who consider themselves as having incurred damages or injury due to the Bank's activities in the ordinary course of business. In the opinion of Bank management, based on the opinion of its legal counsel, with respect to the chances of pending claims, including motions to approve class actions and claims which will not be dismissed or canceled, adequate provisions have been included in these financial statements to cover possible damages due to all claims, in cases where a provision was required in accordance with generally accepted accounting principles.

2. On April 1, 2007, a statement of claim and a motion to recognize the claim as a class action were filed with the District Court of Tel Aviv against Clal Finance Batucha Investment Management Ltd. (hereinafter: "Clal Batucha"), and against additional banks and investment houses. The plaintiffs contend that they own participation units in various mutual funds which were managed in the past by subsidiaries of the banks, including by Clal Mutual Funds Ltd. (formerly Ilanot Discount Ltd., hereinafter: Ilanot Discount"), which was sold to Clal Batucha.

   The subject of the claim and the motion to approve involves "brokerage" fees which, as alleged by the plaintiffs, Clal Mutual Funds (which was, during part of the period relevant to the claim, under the control of Clal Batucha), as a mutual fund manager, used to pay to Bank Discount and to Clal Batucha, for buying and selling activities involving securities and/or foreign currency, which Bank Discount and/or Clal Batucha performed on its behalf, due to its status as a stock exchange member company. As alleged by the plaintiffs, some of the defendants unlawfully charged from mutual funds managed by their subsidiaries fees in rates which were higher than the rates that were charged from other customers of theirs. The plaintiffs further allege that the reason for the continued collection of the high fee was various understandings which Clal Batucha and Bank Discount had reached, within the framework of the sale of the control of Ilanot Discount. The plaintiffs allege that, by these actions, Clal Batucha breached the provisions of the Joint Investment Trust Law, 5754-1994. The plaintiffs further allege that Clal Batucha breached fiduciary duty towards the holders of participation units in the fund, breached the contract between the investors in the investors, misled investors, and abused their lack of knowledge on the matter. The scope of damage claimed to the group is estimated by the plaintiffs, for the period beginning on January 1, 2004, against all of the defendants, as a total of approximately NIS 386.15 million. The plaintiffs contend that, out of this amount, Clal Batucha is responsible for a total of approximately NIS 50.3 million, where with respect to part of the above amount, it is sued alone, and with respect to another part, it is sued jointly and individually with Bank Discount. The relief demanded in the claim is to order all of the defendants to repay the fees which were allegedly overcollected since the beginning of 2004, as well as issuing a mandamus order instructing the defendants to change their practice on all matters associated with the collection of fees.

   On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha with respect to this claim, insofar as any will arise. The above was subject to the obligation of Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the date of the sale, including payment in accordance with a judgment which will be given on the claim, if any, insofar as the total amount of such damages exceeds NIS 2.5 million (discounted for the acquisition date - NIS 2.3 million).

On May 10, 2016, a ruling was given in which the motion to approve the claim as a class action was dismissed, and these proceedings thereby concluded.

3. On September 17, 2013, a claim was filed with the District Court of Jerusalem (inter alia) against the Bank, and a motion was filed to approve the claim as a class action, alleging that the Bank misleads its customers who are disabled persons (at a rate of 40% or higher), and violates the law by not informing them of their legal right to receive discounts on certain fees. The remedies demanded in the motion to approve the claim as a class action include repayment of the difference between the amount charged from disabled customers and the payment which would have been effectively charged from them had the discounts been given. The issuance of a mandamus order is also requested, ordering the Bank to inform its disabled customers regarding the discount. The plaintiff estimated that the total amount of damage caused to the entire class with respect to Bank of Jerusalem amounts to approximately NIS 784 thousand. On June 30, 2014, the Bank filed its response to the motion. On June 15, 2016, a ruling was given which approved the plaintiffs' withdrawal from the claim, and which determined that legal fees will be paid by the defendants to the plaintiff and to their legal counsel. The share of Bank of Jerusalem in the payment of professional fees amounts to NIS 2 thousand. The claim in question was thereby concluded.

4. On August 17, 2016, a statement of claim and a motion to approve it the claim as a class action were filed with the District Court of Tel Aviv-Yafo against the Bank, and against nine additional banks, alleging that the banks collect, from businesses which are their customers, and which are not included under the definition of a "small business", fees beyond what they are permitted to charge according to their fee tables. Therefore, the plaintiffs are petitioning to order the banks to reimburse the aforementioned fees to those clients, which were allegedly collected unlawfully. The plaintiffs further request the issuance of a mandamus order against the defendants, which will prohibit them from continuing to charge fees to the aforementioned clients, in a manner which is not in accordance with their fee tables.

   The plaintiffs estimated the damage amount caused to the entire group by the ten sued banks as approximately NIS 1 billion.

   Due to the fact that the scope of the relevant fees which were paid by the customers of Bank of Jerusalem, with the aforementioned characteristics, during the period which is the subject of the claim, is insignificant, accordingly, the financial scope of the aforementioned claim, insofar as refers to Bank of Jerusalem, is immaterial.

   The Bank's response to the motion and the claim has not yet been filed, and therefore, it is not yet possible to estimates the chances of the motion and the claim.

5. On July 12, 2010, a claim was filed with the Jerusalem District Court against the Bank, along with a motion to approve the claim as a class action, in the total amount of NIS 10,692 thousand for the entire represented class. In the claim it is alleged that the Bank did not lift the registration of pledges which are registered under its name to secure loans which had already been settled in full by the borrowers. Therefore, it was alleged that the Bank must remove these registrations, and compensate customers who had registered these registrations at their own expense. On March 18, 2014, a motion to approve a settlement agreement which was signed regarding this claim was filed with the Court. In accordance with the Court's decision dated March 20, 2014, the agreement was published in the media, and was submitted to the Attorney General of Israel and to the

Commissioner of Banks for approval. The position of the Commissioner of Banks was filed with the Court. In September 2015, evidence hearings were held regarding this claim, and on December 14, 2016, a ruling was given in which the settlement agreement which was signed between the parties was approved. This case was thereby concluded.

6. On November 17, 2014, a claim and a motion to approve the claim as a class action was filed with the Tel Aviv District Court - Economic Department, against the Bank and against several additional defendants who had served as directors in Clal, alleging that Clal Batucha, in its role as portfolio manager, had performed. on behalf of its customers. transactions with securities of member companies of the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group, over the interests of its customers. The plaintiff contends that Clal Batucha breached the provisions of the law, including the provisions of the Engagement in Investment Consulting Law, pertaining to the duty of loyalty of Clal Batucha towards its customers, its obligation to inform its customers regarding the conflict of interest which applied to it in the performance of such actions, and without obtaining their advance consent, before performing any transaction which involved a conflict of interests, as well as a prohibition against giving preference to the financial assets of Clal Batucha or of a related corporation thereto. The plaintiff alleges that he was engaged in an investment management agreement with Clal Batucha, which had acquired, for his portfolio, securities of member companies of the IDB Group, and by so doing, Clal Batucha caused him to incur significant losses. The amount of the personal claim is estimated at approximately NIS 19,000. the petitioner stated that it is not possible to estimate, at this stage, the amount of the collective claim. On June 30, 2015, Clal Finance filed, on behalf of the Bank, the Bank's response to the motion. In January 2016, the petitioner filed its response to the respondent's response.

On January 8, 2017, a decision was given regarding the motion to approve (hereinafter: the "Decision"), which approved the management of the claim as a class action against Clal Batucha, and dismissed the motion with respect to the directors. The group members, as determined in the decision, include "anyone who received investment management services from Clal Finance Batucha" ("Batucha"), and as part of the portfolio management activity, Batucha acquired for them (or for another party on their behalf) securities, without receiving approval in advance with respect to each such transaction, and caused them to incur damage as a result of the acquisition. It was further determined in the decision that the group will include anyone in whose account securities were purchased, as stated above, during the period of up to 7 years before the filing of the motion to approve, until the date when the merger transaction of Clal Batucha into Bank of Jerusalem was completed.

On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha with respect to this claim, insofar as any will arise. The above was subject to the obligation of Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, including payment in accordance with a judgment which will be given regarding the claim, if any, insofar as the total amount of such damages exceeds NIS 2.5 million. On December 21, 2014, Clal Finance Ltd. and Clal Insurance Enterprises Holdings Ltd. notified Bank of Jerusalem that Clal Finance Ltd. had assigned its liabilities and rights in accordance with section 10 of the purchase agreement to Clal Insurance Enterprises Holdings Ltd. In light of the above, the indemnity undertaking of Clal Finance Ltd. now applies to Clal Insurance Enterprises Holdings Ltd. In the opinion of bank management, based on the assessment of its legal counsel regarding the chances of the claim, the provision which was included in the financial statements, after deducting the indemnification, is adequate.

7. As of December 31, 2016, the Bank has no significant exposure to claims which were filed against it, whose chances are not low, except as stated in section 6 of this note. In 2016, no material changes occurred in motions to approve class actions which were filed against the Bank, except as specified in sections 2 - 6 above.

D. Other contingent liabilities

1. In January 2012, a decision was approved in the general shareholders' meeting of the Bank, according to which the Bank will grant, to any person who will serve, from time to time, as a corporate officer in the Bank and in its subsidiaries, an undertaking to indemnify with respect to financial debt which may be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking.The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

   On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letters of indemnity to directors who are controlling shareholders and/or their relatives and/or anyone in whom the controlling shareholders may have a personal interest in the provision of the letters of indemnity, for an additional three year period, beginning on October 9, 2016 (the date when 3 years passed since the date when the letters of indemnity were approved for Mr. Zalman Shoval, Mr. Gideon Shoval and Mr. Moshe Bauer), under the same conditions as the current letters of indemnity which were approved in October 2013, as stated above, to all other corporate officers, including to the other directors and to the aforementioned directors.

2. As part of the founding of the company Jerusalem Finance & Issuance (2005) Ltd., a wholly controlled subsidiary of the Bank (hereinafter: "Finance & Issuance"), the Bank undertook to indemnify Finance & Issuance with respect to all of its undertakings, in order to comply with the directives issued by the Commissioner of Banks on the subject of the minimum capital ratio (section 4 of Proper Banking Management Directive 311).

   Within the framework of issuances to the public of liability certificates by Finance & Issuance, the Bank undertook towards Finance & Issuance and the trustee for those issuances, to uphold all of the terms of the liability certificates which were issued by it and which will be held by the public. As of the reporting date, the balance of the Bank's liability amounts to NIS 46 million par value of certificates of deposit (Series B), NIS 50 million par value of deferred liability notes (Series C), NIS 216 million par value of bonds (Series G), NIS 216 million par value of bonds (Series H), NIS 711 million par value (Series I), NIS 100 million par value of deferred liability notes (Series N), and NIS 131 million of deferred liability notes (Series 10) and NIS 128 million par value of deferred contingent liability notes (Series 11), which were issued by Finance & Issuance. The Bank's aforementioned undertaking is irrevocable and non-modifiable, due to the fact that the rights of the certificate of deposit holders are dependent upon them.

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

3. On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha, with respect to its past activities, if any, including with respect to existing claims against Clal Batucha, which have been estimated, for the purpose of the attribution of purchasing costs, in the total amount of NIS 5 million (discounted as of the purchasing date - NIS 4.6 million). The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 2.5 thousand (discounted as of the acquisition date - NIS 2.3 million). The Bank is also responsible, as a result of the purchase agreement, for the letters of indemnity of various entities which acquired various activities from Clal Batucha before the sale date. The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 30 thousand.

E- Engagements

The Bank and a consolidated company engaged in long term rental contracts, which include an option for extension. The rental fees required for payment in the coming years with respect to these engagements are as follows:

	Consolidated		The Bank	
	As of December 31			
	NIS millions			
	2016	2015	2016	2015
First year	**17.2**	16.8	**2.6**	2.6
Second year	**17.3**	15.2	**1.9**	1.5
Third year	**17.0**	15.3	**1.9**	1.5
Fourth year	**14.7**	15.2	**1.8**	1.5
Fifth year and thereafter	**107.4**	109.7	**1.4**	0.8
Total long term rental contracts	**173.5**	**172.2**	**9.6**	**7.9**

Note 27 - Pledges, Conditions, Restrictive Terms and Securities

A. In accordance with the bylaws of the Maof Clearing House Ltd. (hereinafter: "Maof Clearing House"), the Bank is required, as a member of the Maof Clearing House, to deposit liquid collaterals for the entire exposure with respect to activities with derivatives and for its shares in the risk reserve. For this purpose, the Bank pledged in favor of the Maof Clearing House its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the name of the Maof Clearing House, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve (hereinafter: the "Collateral Account"). The value of the bonds which were deposited as of December 31, 2016 amounted to a total of NIS 295.7 million (as of December 31, 2015 - NIS 326.6 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Maof Clearing House, in which cash will be deposited with a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2016, funds had been deposited in this account in the amount of NIS 14.5 million (as of December 31, 2015: NIS 18.3 million).

   The accounts specified above are pledged by means of a floating pledge in favor of the Maof Clearing House, and are also pledged by means of a fixed pledge in favor of the Maof Clearing House.

B. As a stock exchange member company, the Bank is required to deposit liquid collaterals to secure the fulfillment of all of the liabilities of the Bank's customers towards the Stock Exchange Clearing House, with respect to transactions which were performed in the Stock Exchange Clearing House, and to secure their share in the risk reserve of the Stock Exchange Clearing House. For this purpose, the Bank pledged, in favor of the Stock Exchange Clearing House, by means of a first priority fixed pledge, its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the Bank's name, and which is managed on the Bank's behalf, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve. The value of the bonds which were deposited as of December 31, 2016 amounted to a total of NIS 17.7 million (as of December 31, 2015 - NIS 6.4 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Stock Exchange Clearing House, in which will be deposited cash in a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2016, funds had been deposited in this account in the amount of NIS 4.6 million (as of December 31, 2015: NIS 11.9 million).

C. For the purpose of securing the credit which had been provided, or which will be provided, by the Bank of Israel to the Bank, within the framework of the Bank's activities in the RTGS system, the Bank pledged, in favor of the Bank of Israel, in accordance with an agreement with it dated January 24, 2011, bonds which are held by the Bank and which were deposited or will be deposited in a designated account managed in the Stock Exchange under the name of the Bank of Israel. The pledge is not restricted to any amount. As of December 31, 2016, no securities were pledged (as of December 31, 2015 - NIS 73.6 million).

Note 27 - Pledges, Conditions, Restrictive Terms and Securities (Cont.)

D. Within the framework of the agreement dated November 21, 2016, as part of the sale of the portfolio of loans to Ayalon Insurance Company Ltd. and Ayalon Pension and Provident Funds Ltd. (hereinafter, jointly and severally: "Ayalon"), the Bank assigned to Ayalon 80% of all of its rights and obligations in the portfolio of loans and securities for loans. The total amount of the loans which were assigned to Ayalon in accordance with the agreement amounted, as of December 31, 2016, to a total of approximately NIS 109 million. A notice with respect to the assignment of rights was entered in the Bank's records at the Registrar of Companies. It is noted that the Bank did nor record any profit or loss from this transaction.

Details of securities which were pledged to lenders (NIS millions)

	Consolidated	
	As of December 31	
	2016	2015
Available for sale securities	78.9	406.5
Marketable securities	234.5	-
Total	**313.4**	**406.5**

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates

A - Implementation of directives issued by the Commissioner on the subject of derivative instruments and hedging activities

The Bank's activities as a financial intermediary expose it to a variety of financial risks, including market risks. Market risk includes, inter alia, basis risks, interest rate risks, exchange rate volatility risks, and inflation rate risks. As part of the Bank's comprehensive strategy for managing the exposure level to market risk, as stated above, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to market risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions and forward foreign currency contracts. The Bank does not perform transactions with options to its account (nostro), except for hedging purposes.

Transactions with derivative financial instruments are recorded at fair value, and changes in their fair value are routinely recorded in the statement of income.

Additionally, the Bank engages in contracts which in themselves do into constitute derivative instruments, but which do contain embedded derivatives. Regarding each contract, the Bank evaluates whether the economic characteristics of the embedded derivative are clearly and closely associated with those of the host contract, and determines whether a separate instrument, with the same terms as those of the embedded instrument, would have met the definition of a derivative instrument. When it is determined that an embedded derivative has economic characteristics which are not clearly and closely associated with the economic characteristics of the host contract, and that a separate instrument with the same conditions qualified as a derivative instrument, the derivative instrument is separated from the host contract, and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates

Reported amounts in millions of NIS

B - Scope of operations

1. Par value of derivative instruments

	As of December 31, 2016				
	Interest contracts		Foreign currency contracts	Contracts with respect to stocks	Total
	NIS - CPI	Other			
A. ALM derivatives [(1)(2)]					
Forward contracts	-	-	328.8	-	328.8
Swaps	50.0	352.7	-	-	402.7
Total	**50.0**	**352.7**	**328.8**	**-**	**731.5**
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	352.7	-	-	352.7
B. Other derivatives [(1)]					
Futures contracts	-	175.6	-	-	175.6
Option contracts traded on the stock exchange					
Written options	-	-	140.7	3,150.8	3,291.5
Acquired options	-	-	140.7	3,150.8	3,291.5
Other option contracts					
Written options	-	-	-	2,181.9	2,181.9
Acquired options	-	-	-	2,181.9	2,181.9
Total	**-**	**175.6**	**281.4**	**10,665.4**	**11,122.4**
C. Credit derivatives and foreign currency spot transactions					
Foreign currency spot contracts	-	-	17.9	-	17.9
Total par value	**50.0**	**528.3**	**628.1**	**10,665.4**	**11,871.8**
2. Gross fair value of derivative instruments					
A. ALM derivatives [(1)(2)]					
Gross positive fair value	-	3.7	3.1	-	6.8
Gross negative fair value	-	1.3	1.0	-	2.3
B. Other derivatives [(1)]					
Gross positive fair value	-	-	0.4	143.9	144.3
Gross negative fair value	-	0.1	0.4	143.9	144.4
Total gross positive fair value (in assets)	**-**	**3.7**	**3.5**	**143.9**	**151.1**
Total gross negative fair value (in liabilities)	**-**	**1.4**	**1.4**	**143.9**	**146.7**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(3) The total balance is subject to the net arrangements regarding the settling of accounts, or to similar arrangements.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

B - Scope of operations

1. Par value of derivative instruments

	As of December 31, 2015				
	Interest contracts		Foreign currency contracts	Contracts with respect to stocks	Total
	NIS - CPI	Other			
A. ALM derivatives (1)(2)					
Forward contracts	-	-	420.4	-	420.4
Swaps *	200.0	254.1	-	-	454.1
Total	**200.0**	**254.1** (4)	**420.4**	**-**	**874.5** (4)
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	254.1	-	-	254.1
B. Other derivatives (1)					
Futures contracts	-	57.6 (4)	-	-	57.6 (4)
Option contracts traded on the stock exchange					
Written options	-	-	144.5	3,904.9	4,049.4
Acquired options	-	-	144.5	3,904.9	4,049.4
Other option contracts					
Written options	-	-	-	691.3	691.3
Acquired options	-	-	-	691.3	691.3
Total	**-**	**57.6** (4)	**289.0**	**9,192.4**	**9,539.0** (4)
C. Credit derivatives and foreign currency spot transactions					
Foreign currency spot contracts	-	-	5.2	-	5.2
Total par value	**200.0**	**311.7**	**714.6**	**9,192.4**	**10,418.7**
2. Gross fair value of derivative instruments					
A. ALM derivatives (1)(2)					
Gross positive fair value	-	1.3	1.9	-	3.2
Gross negative fair value	1.9	- (4)	1.1	-	3.0
B. Other derivatives					
Gross positive fair value	-	-	0.9	191.0	191.9
Gross negative fair value	-	0.3 (4)	0.9	191.0	192.2
Total gross positive fair value (in assets)	**-**	**1.3**	**2.8**	**191.0**	**195.1**
Total gross negative fair value (in liabilities)	**1.9**	**0.3**	**2.0**	**191.0**	**195.2**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(3) The total balance is subject to the net arrangements regarding the settling of accounts, or to similar arrangements.
(4) Reclassified.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

C - Credit risk with respect to derivative instruments by counterparty in the contract

	As of December 31, 2016			
	Stock exchanges	Banks	Dealers / brokers	Total
Book value of assets with respect to derivative instruments (2)	105.0	8.0	38.1	151.1
Gross amounts which were not set off in the balance sheet:				
Amortization of credit risk with respect to security received in cash	-	(2.7)	-	(2.7)
Net amount of assets with respect to derivative instruments	**105.0**	**5.3**	**38.1**	**148.4**
Off-balance sheet credit risks, net, with respect to derivative instruments (1)	24.2	8.0	8.1	40.3
Total credit risk with respect to derivative instruments	**129.2**	**13.3**	**46.2**	**188.7**
Balance sheet balance of liabilities with respect to derivative instruments	117.9	2.4	26.4	146.7
Gross amounts which were not set off in the balance sheet:				
Pledged collateral in cash	-	0.3	-	0.3
Net amount of liabilities with respect to derivative instruments	**117.9**	**2.1**	**26.4**	**146.4**

	As of December 31, 2015			
	Stock exchanges	Banks	Dealers / brokers	Total
Book value of assets with respect to derivative instruments (2)	182.5	3.3	9.3	195.1
Gross amounts which were not set off in the balance sheet:				
Amortization of credit risk with respect to security received in cash	-	-	-	-
Net amount of assets with respect to derivative instruments	**182.5**	**3.3**	**9.3**	**195.1**
Off-balance sheet credit risks, net, with respect to derivative instruments (1)	30.5	9.6	6.4	46.5
Total credit risk with respect to derivative instruments	**213.0**	**12.9**	**15.7**	**241.6**
Balance sheet balance of liabilities with respect to derivative instruments	182.6	3.3	9.3	195.2
Gross amounts which were not set off in the balance sheet:				
Pledged collateral in cash	-	-	-	-
Net amount of liabilities with respect to derivative instruments	**182.6**	**3.3**	**9.3**	**195.2**

(1) The difference is positive between all amounts with respect to derivative instruments (including derivative instruments with a negative fair value) which were included under the borrower's debt, as calculated for the purpose of restrictions on the borrower's debt, before the amortization of credit risk, and the balance sheet balance of assets with respect to the borrower's derivative instruments.
(2) Of which, the balance sheet balance of independent derivative instruments amounts to NIS 151.1 million (as of December 31, 2015 - NIS 195.1 million), which is included under the item for assets with respect to derivative instruments.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

D - Details regarding repayment dates (par value amounts)

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	As of December 31, 2016				
Interest contracts (NIS - CPI)	-	50.0	-	-	50.0
Interest contracts (other)	175.6	-	186.0	166.7	528.3
Foreign currency contracts	542.4	85.7	-	-	628.1
Contracts with respect to shares	10,251.1	11.2	403.1	-	10,665.4
Total	**10,969.1**	**146.9**	**589.1**	**166.7**	**11,871.8**

	As of December 31, 2015				
Interest contracts (NIS - CPI)	200.0	-	-	-	200.0
Interest contracts (other)	57.6	-	186.0	68.1	311.7
Foreign currency contracts	584.0	130.6	-	-	714.6
Contracts with respect to shares	8,789.9	60.1	342.0	0.4	9,192.4
Total	**9,631.5**	**190.7**	**528.0**	**68.5**	**10,418.7**

Note 29 - Supervised Operating Segments

A. In accordance with the circular issued by the Banking Supervision Department on November 3, 2014, beginning with the financial statements for 2015, the report regarding operating segments is prepared in accordance with the framework and classifications which were determined in the public reporting regulations of the Banking Supervision Department. The full disclosure was included for the first time in the report as of March 31, 2016, and the comparative figures were reclassified in accordance with the classification of customers to the supervised operating segments, as of January 1, 2016.

B. Definitions

- Private individuals - individuals, including individuals who manage joint accounts, who, as of the reporting date, have no debts to the Bank, or whose debts are classified under the market segment "private individuals - housing loans and other".
- Private banking segment - private individuals where the balance of their financial assets portfolio in the Bank, on a consolidated basis (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- Households - private individuals, excluding customers included under private banking.
- Business - customers who are not included under the definition of "private individuals" and who are not an institutional entity or banking corporation.
- Business turnover - annual sales turnover or annual income turnover.
- Micro business - businesses with a turnover of less than NIS 10 million.
- Small business - businesses with a turnover greater than or equal to NIS 10 million, and less than NIS 50 million.
- Medium business - businesses with a turnover greater than or equal to NIS 50 million, and less than NIS 250 million.
- Large business - businesses with a turnover greater than NIS 250 million.
- Financial management segment - includes the following activities: investment in marketable securities, market making activities, activities involving assets and liabilities, deposits in banks and from banks in Israel and abroad.
- Managed assets - securities of customers, loans managed by the Bank and assets due to the activity, by collection rate.

C. The main principles which were applied in the division of the results of operations among the various segments:

Interest income, net

Margin received from the difference between the credit interest which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the credit's duration) and profit received from the difference between the deposit interest rate which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).

Non-interest income

Non-interest income is directly applied to the segment where the customer activity is classified.

Expenses with respect to credit losses

The provision was applied to the operating segment under which the customer activity for which the provision was performed is classified. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.

Operating and other expenses

Identifiable direct expenses were specifically applied to the operating segments. The balance of indirect expenses or direct expenses which were not directly attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, which constitutes a best estimate of the customer's scope of activities in the operating segment.

Taxes on income

Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2016							
	Households	Private banking	Small and micro businesses	Medium and large businesses[1]	Institutional entities	Financial management segment	Unallocated amounts	Total
Interest income from externals	374.2	-	42.6	15.5	-	6.0	-	438.3
Interest expenses from externals	40.9	13.4	1.5	0.1	8.3	31.1	-	95.3
Interest income, net:								
From externals	333.3	(13.4)	41.1	15.4	(8.3)	(25.1)	-	343.0
Inter-segmental	(67.3)	15.9	(8.1)	(3.6)	10.8	52.3	-	-
Total interest income, net	**266.0**	**2.5**	**33.0**	**11.8**	**2.5**	**27.2**	**-**	**343.0**
Total non-interest income	**65.9**	**6.4**	**29.3**	**8.8**	**22.0**	**35.4**	**-**	**167.8**
Total income	**331.9**	**8.9**	**62.3**	**20.6**	**24.5**	**62.6**	**-**	**510.8**
Expenses (income) with respect to credit losses	29.4	0.1	(0.4)	1.3	-	-	-	30.4
Operating and other expenses	287.6	14.5	26.9	7.5	39.3	10.7	-	386.5
Profit (loss) before taxes	**14.9**	**(5.7)**	**35.8**	**11.8**	**(14.8)**	**51.9**	**-**	**93.9**
Provision for taxes on income	6.2	(2.3)	14.7	4.8	(6.2)	21.1	-	38.3
Net profit (loss)	**8.7**	**(3.4)**	**21.1**	**7.0**	**(8.6)**	**30.8**	**-**	**55.6**
Average balance of assets	8,323.6	6.6	1,350.1	595.6	41.4	3,873.0	-	14,190.3
Average balance of credit to the public	8,323.6	6.6	1,350.1	493.7	41.4	-	-	10,215.4
Balance of credit to the public at the end of the reporting period	8,284.2	6.3	1,191.0	408.9	2.2	-	-	9,892.6
Balance of impaired debts	15.7	-	16.6	13.6	-	-	-	45.9
Balance of debts in arrears of over 90 days	148.0	-	5.1	-	-	-	-	153.1
Average balance of liabilities	6,866.5	1,583.5	808.6	376.1	1,407.2	2,348.8	-	13,390.7
Of which: average balance of public deposits	6,866.5	1,583.5	808.6	274.3	1,407.2	-	-	10,940.1
Balance of public deposits at the end of the reporting period	6,854.4	1,595.8	739.1	317.7	1,361.3	-	-	10,868.3
Average balance of risk assets	5,576.9	23.9	1,436.4	559.7	49.1	485.4	-	8,131.4
Balance of risk assets at end of reporting period	5,562.2	21.8	1,222.2	620.0	41.9	455.4	-	7,923.5
Average balance of managed assets	4,186.6	2,447.5	1,310.9	3,460.9	134.8	-	-	11,540.7
Separation of interest income, net:							-	
Margin from credit provision activity	247.0	-	31.3	11.7	-	-	-	290.0
Margin from deposits receipt activity	13.4	2.5	1.0	0.1	2.5	-	-	19.5
Other	5.6	-	0.7	-	-	27.2	-	33.5
Total interest income, net	**266.0**	**2.5**	**33.0**	**11.8**	**2.5**	**27.2**	**-**	**343.0**

(1) This segment includes activities with large businesses of an immaterial scope.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2015*							
	Households	Private banking	Small and micro businesses	Medium and large businesses(1)	Institutional entities	Financial management segment	Unallocated amounts	Total
Interest income from externals	336.0	0.2	43.5	13.9	-	12.7	-	406.3
Interest expenses from externals	26.4	11.8	0.7	-	9.4	23.9	-	72.2
Interest income, net:								
From externals	309.6	(11.6)	42.8	13.9	(9.4)	(11.2)	-	334.1
Inter-segmental	(66.8)	14.7	(9.4)	(2.1)	10.6	53.0	-	-
Total interest income, net	**242.8**	**3.1**	**33.4**	**11.8**	**1.2**	**41.8**	**-**	**334.1**
Total non-interest income	**70.4**	**5.2**	**23.2**	**10.8**	**26.4**	**0.9**	**5.8**	**142.7**
Total income	**313.2**	**8.3**	**56.6**	**22.6**	**27.6**	**42.7**	**5.8**	**476.8**
Expenses (income) with respect to credit losses	41.5	-	(1.1)	-	-	-	-	40.4
Operating and other expenses	272.3	13.3	25.3	7.1	36.3	11.5	-	365.8
Profit (loss) before taxes	**(0.6)**	**(5.0)**	**32.4**	**15.5**	**(8.7)**	**31.2**	**5.8**	**70.6**
Provision for taxes on income	(0.2)	(1.6)	10.2	4.8	(2.9)	9.8	1.9	22.0
Net profit (loss)	**(0.4)**	**(3.4)**	**22.2**	**10.7**	**(5.8)**	**21.4**	**3.9**	**48.6**
Average balance of assets	7,937.0	4.7	1,130.0	795.3	6.8	4,105.9	-	13,979.7
Average balance of credit to the public	7,937.0	4.7	1,130.0	605.3	6.8	-	-	9,683.8
Balance of credit to the public at the end of the reporting period	8,187.7	5.0	1,200.9	607.3	-	-	-	10,000.9
Balance of impaired debts	15.9	-	9.8	-	-	-	-	25.7
Balance of debts in arrears of over 90 days	175.3	-	3.1	-	-	-	-	178.4
Average balance of liabilities	7,032.9	1,631.5	1,134.3	341.6	1,143.2	1,922.7	-	13,206.2
Of which: average balance of public deposits	7,032.9	1,631.5	1,134.3	151.6	1,143.2	-	-	11,093.5
Balance of public deposits at the end of the reporting period	6,762.9	1,594.0	1,115.6	167.7	1,378.8	-	-	11,019.0
Average balance of risk assets	5,261.5	23.4	1,370.3	598.9	7.3	643.1	-	7,904.5
Balance of risk assets at end of reporting period	5,379.5	22.9	1,296.5	662.5	7.0	645.4	-	8,013.8
Average balance of managed assets	4,804.5	3,113.7	936.9	4,015.4	12.5	-	-	12,883.0
Separation of interest income, net:							-	
Margin from credit provision activity	222.9	-	30.9	11.5	0.3	-	-	265.6
Margin from deposits receipt activity	14.2	2.4	1.6	0.1	0.7	-	-	19.0
Other	5.7	0.7	0.9	0.2	0.2	41.8	-	49.5
Total interest income, net	**242.8**	**3.1**	**33.4**	**11.8**	**1.2**	**41.8**	**-**	**334.1**

(1) This segment includes activities with large businesses of an immaterial scope.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts, NIS millions

C. Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2016				
	Households segment				
	Housing loans	Other	Total households	Total private banking	Total
Interest income from externals	241.9	132.3	374.2	-	374.2
Interest expenses from externals	-	40.9	40.9	13.4	54.3
Interest income, net:					
From externals	241.9	91.4	333.3	(13.4)	319.9
Inter-segmental	(111.2)	43.9	(67.3)	15.9	(51.4)
Total interest income, net	**130.7**	**135.3**	**266.0**	**2.5**	**268.5**
Total non-interest income	**27.4**	**38.5**	**65.9**	**6.4**	**72.3**
Total income	**158.1**	**173.8**	**331.9**	**8.9**	**340.8**
Expenses (income) with respect to credit losses	(7.9)	37.3	29.4	0.1	29.5
Operating and other expenses	64.5	223.1	287.6	14.5	302.1
Profit (loss) before taxes	**101.5**	**(86.6)**	**14.9**	**(5.7)**	**9.2**
Provision for taxes on income	41.6	(35.4)	6.2	(2.3)	3.9
Net profit (loss)	**59.9**	**(51.2)**	**8.7**	**(3.4)**	**5.3**
Average balance of assets	7,040.3	1,283.3	8,323.6	6.6	8,330.2
Average balance of credit to the public	7,040.3	1,283.3	8,323.6	6.6	8,330.2
Balance of credit to the public at the end of the reporting period	7,014.1	1,270.1	8,284.2	6.3	8,290.5
Balance of impaired debts	-	15.7	15.7	-	15.7
Balance of debts in arrears of over 90 days	137.4	10.6	148.0	-	148.0
Average balance of liabilities	-	6,866.5	6,866.5	1,583.5	8,450.0
Of which: average balance of public deposits	-	6,866.5	6,866.5	1,583.5	8,450.0
Balance of public deposits at the end of the reporting period	-	6,854.4	6,854.4	1,595.8	8,450.2
Average balance of risk assets	4,131.6	1,445.3	5,576.9	23.9	5,600.8
Balance of risk assets at end of reporting period	3,987.9	1,574.3	5,562.2	21.8	5,584.0
Average balance of managed assets	1,041.0	3,145.6	4,186.6	2,447.5	6,634.1
Separation of interest income, net:					
Margin from credit provision activity	125.1	121.9	247.0	-	247.0
Margin from deposits receipt activity	-	13.4	13.4	2.5	15.9
Other	5.6	-	5.6	-	5.6
Total interest income, net	**130.7**	**135.3**	**266.0**	**2.5**	**268.5**

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts, NIS millions

Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2015*				
	Households segment				
	Housing loans	Other	Total households	Total private banking	Total
Interest income from externals	219.2	116.8	336.0	0.2	336.2
Interest expenses from externals	-	26.4	26.4	11.8	38.2
Interest income, net:					
From externals	219.2	90.4	309.6	(11.6)	298.0
Inter-segmental	(101.4)	34.6	(66.8)	14.7	(52.1)
Total interest income, net	**117.8**	**125.0**	**242.8**	**3.1**	**245.9**
Total non-interest income	**31.6**	**38.8**	**70.4**	**5.2**	**75.6**
Total income	**149.4**	**163.8**	**313.2**	**8.3**	**321.5**
Expenses with respect to credit losses	0.7	40.8	41.5	-	41.5
Operating and other expenses	60.4	211.9	272.3	13.3	285.6
Profit (loss) before taxes	**88.3**	**(88.9)**	**(0.6)**	**(5.0)**	**(5.6)**
Provision for taxes on income	27.1	(27.3)	(0.2)	(1.6)	(1.8)
Net profit (loss)	**61.2**	**(61.6)**	**(0.4)**	**(3.4)**	**(3.8)**
Average balance of assets	6,872.6	1,064.4	7,937.0	4.7	7,941.7
Average balance of credit to the public	6,872.6	1,064.4	7,937.0	4.7	7,941.7
Balance of credit to the public at the end of the reporting period	7,020.7	1,167.0	8,187.7	5.0	8,192.7
Balance of impaired debts	-	15.9	15.9	-	15.9
Balance of debts in arrears of over 90 days	164.6	10.7	175.3	-	175.3
Average balance of liabilities	-	7,032.9	7,032.9	1,631.5	8,664.4
Of which: average balance of public deposits	-	7,032.9	7,032.9	1,631.5	8,664.4
Balance of public deposits at the end of the reporting period	-	6,762.9	6,762.9	1,594.0	8,356.9
Average balance of risk assets	3,994.3	1,267.2	5,261.5	23.4	5,284.9
Balance of risk assets at end of reporting period	4,048.6	1,330.9	5,379.5	22.9	5,402.4
Average balance of managed assets	1,246.4	3,558.1	4,804.5	3,113.7	7,918.2
Separation of interest income, net:					
Margin from credit provision activity	113.5	109.4	222.9	-	222.9
Margin from deposits receipt activity	-	14.2	14.2	2.4	16.6
Other	4.3	1.4	5.7	0.7	6.4
Total interest income, net	**117.8**	**125.0**	**242.8**	**3.1**	**245.9**

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

Information regarding supervised operating segments - consolidated (Cont.)

Micro, small, medium and large businesses - activity in Israel, consolidated

	For the year ended December 31, 2016						
	Small and micro businesses segment			Medium and large business segment [1]			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from externals	41.0	1.6	**42.6**	15.5	-	**15.5**	**58.1**
Interest expenses from externals	0.2	1.3	**1.5**	-	0.1	**0.1**	**1.6**
Interest income, net:							
From externals	40.8	0.3	**41.1**	15.5	(0.1)	**15.4**	**56.5**
Inter-segmental	(10.2)	2.1	**(8.1)**	(3.7)	0.1	**(3.6)**	**(11.7)**
Total interest income, net	**30.6**	**2.4**	**33.0**	**11.8**	**-**	**11.8**	**44.8**
Total non-interest income	**16.6**	**12.7**	**29.3**	**8.5**	**0.3**	**8.8**	**38.1**
Total income	**47.2**	**15.1**	**62.3**	**20.3**	**0.3**	**20.6**	**82.9**
Expenses with respect to credit losses	(0.6)	0.2	**(0.4)**	1.3	-	**1.3**	**0.9**
Operating and other expenses	15.0	11.9	**26.9**	7.5	-	**7.5**	**34.4**
Profit (loss) before taxes	32.8	3.0	**35.8**	11.5	0.3	**11.8**	**47.6**
Provision for taxes on income	13.4	1.3	**14.7**	4.7	0.1	**4.8**	**19.5**
Net profit	**19.4**	**1.7**	**21.1**	**6.8**	**0.2**	**7.0**	**28.1**
Average balance of assets	1,054.7	295.4	**1,350.1**	493.7	101.9	**595.6**	**1,945.7**
Average balance of credit to the public	1,054.7	295.4	**1,350.1**	493.7	-	**493.7**	**1,843.8**
Balance of credit to the public at the end of the reporting period	840.2	350.8	**1,191.0**	408.9	-	**408.9**	**1,599.9**
Balance of impaired debts	16.0	0.6	**16.6**	13.6	-	**13.6**	**30.2**
Balance of debts in arrears of over 90 days	5.1	-	**5.1**	-	-	**-**	**5.1**
Average balance of liabilities	375.6	433.0	**808.6**	267.5	108.6	**376.1**	**1,184.7**
Of which: average balance of public deposits	375.6	433.0	**808.6**	267.5	6.8	**274.3**	**1,082.9**
Balance of public deposits at the end of the reporting period	400.9	338.2	**739.1**	311.0	6.7	**317.7**	**1,056.8**
Average balance of risk assets	1,369.6	66.8	**1,436.4**	556.0	3.7	**559.7**	**1,996.1**
Balance of risk assets at end of reporting period	1,118.7	103.5	**1,222.2**	617.9	2.1	**620.0**	**1,842.2**
Average balance of managed assets	14.4	1,296.5	**1,310.9**	181.6	3,279.3	**3,460.9**	**4,771.8**
Separation of interest income, net:							
Margin from credit provision activity	29.8	1.5	**31.3**	11.7	-	**11.7**	**43.0**
Margin from deposits receipt activity	0.4	0.6	**1.0**	0.1	-	**0.1**	**1.1**
Other	0.4	0.3	**0.7**	-	-	**-**	**0.7**
Total interest income, net	**30.6**	**2.4**	**33.0**	**11.8**	**-**	**11.8**	**44.8**

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

Information regarding supervised operating segments - consolidated (Cont.)

Micro, small, medium and large businesses - activity in Israel, consolidated

	December 31, 2015						
	Small and micro businesses segment			Medium and large business segment [(1)]			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from externals	40.6	2.9	**43.5**	13.9	-	**13.9**	**57.4**
Interest expenses from externals	-	0.7	**0.7**	-	-	**-**	**0.7**
Interest income, net:							
From externals	40.6	2.2	**42.8**	13.9	-	**13.9**	**56.7**
Inter-segmental	(11.5)	2.1	**(9.4)**	(2.2)	0.1	**(2.1)**	**(11.5)**
Total interest income, net	**29.1**	**4.3**	**33.4**	**11.7**	**0.1**	**11.8**	**45.2**
Total non-interest income	**12.9**	**10.3**	**23.2**	**10.5**	**0.3**	**10.8**	**34.0**
Total income	**42.0**	**14.6**	**56.6**	**22.2**	**0.4**	**22.6**	**79.2**
Expenses (income) with respect to credit losses	(1.4)	0.3	**(1.1)**	-	-	**-**	**(1.1)**
Operating and other expenses	14.4	10.9	**25.3**	7.1	-	**7.1**	**32.4**
Profit (loss) before taxes	29.0	3.4	**32.4**	15.1	0.4	**15.5**	**47.9**
Provision for taxes on income	9.1	1.1	**10.2**	4.7	0.1	**4.8**	**15.0**
Net profit	**19.9**	**2.3**	**22.2**	**10.4**	**0.3**	**10.7**	**32.9**
Average balance of assets	953.0	177.0	**1,130.0**	605.3	190.0	**795.3**	**1,925.3**
Average balance of credit to the public	953.0	177.0	**1,130.0**	605.3	-	**605.3**	**1,735.3**
Balance of credit to the public at the end of the reporting period	1,067.6	133.3	**1,200.9**	607.3	-	**607.3**	**1,808.2**
Balance of impaired debts	8.6	1.2	**9.8**	-	-	**-**	**9.8**
Balance of debts in arrears of over 90 days	3.0	0.1	**3.1**	-	-	**-**	**3.1**
Average balance of liabilities	429.6	704.7	**1,134.3**	143.5	198.1	**341.6**	**1,475.9**
Of which: average balance of public deposits	429.6	704.7	**1,134.3**	143.5	8.1	**151.6**	**1,285.9**
Balance of public deposits at the end of the reporting period	442.5	673.1	**1,115.6**	158.5	9.2	**167.7**	**1,283.3**
Average balance of risk assets	1,267.8	102.5	**1,370.3**	597.9	1.0	**598.9**	**1,969.2**
Balance of risk assets at end of reporting period	1,195.7	100.8	**1,296.5**	661.7	0.8	**662.5**	**1,959.0**
Average balance of managed assets	9.3	927.6	**936.9**	164.1	3,851.3	**4,015.4**	**4,952.3**
Separation of interest income, net:							
Margin from credit provision activity	28.3	2.6	**30.9**	11.5	-	**11.5**	**42.4**
Margin from deposits receipt activity	0.4	1.2	**1.6**	0.1	-	**0.1**	**1.7**
Other	0.4	0.5	**0.9**	0.1	0.1	**0.2**	**1.1**
Total interest income, net	**29.1**	**4.3**	**33.4**	**11.7**	**0.1**	**11.8**	**45.2**

(1) This segment includes activities with large businesses of an immaterial scope.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments

Provision for credit losses

	As of December 31, 2016					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	9.1	60.2	45.1	114.4	-	114.4
Expenses with respect to credit losses	0.7	(7.7)	37.4	30.4	-	30.4
Accounting write-offs	(0.4)	(7.7)	(41.3)	(49.4)	-	(49.4)
Collection of debts which were written off in previous years	0.2	-	9.8	10.0	-	10.0
Net accounting write-offs	(0.2)	(7.7)	(31.5)	(39.4)	-	(39.4)
Balance of the provision for credit losses at end of year (*)	**9.6**	**44.8**	**51.0**	**105.4**	**-**	**105.4**
(*) Of which: with respect to off-balance sheet credit instruments	2.2	0.2	0.5	2.9	-	2.9
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts (1) and for debts (1) with respect to which it was calculated						
Recorded debit balance of debts (1):						
Evaluated on an individual basis	1,245.5	-	19.7	1,265.2	-	1,265.2
Evaluated on a collective basis (**)	509.1	7,014.1	1,104.2	8,627.4	-	8,627.4
Total debts (1)	**1,754.6**	**7,014.1**	**1,123.9**	**9,892.6**	**-**	**9,892.6**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	152.5	6,669.7	-	6,822.2	-	6,822.2
Provision for credit losses with respect to debts (1)						
Evaluated on an individual basis	5.9	-	9.8	15.7	-	15.7
Evaluated on a collective basis (***)	1.5	44.6(2)	40.7	86.8	-	86.8
Total provision for credit losses	**7.4**	**44.6**	**50.5**	**102.5**	**-**	**102.5**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.5	44.6	-	45.1	-	45.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements

(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 1 million, and which was calculated on a collective basis in the amount of NIS 24.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

	As of December 31, 2015					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	10.2	64.5	36.0	110.7	-	110.7
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses at end of year (*)	**9.1**	**60.2**	**45.1**	**114.4**	**-**	**114.4**
(*) Of which: with respect to off-balance sheet credit instruments	1.8	0.4	0.6	2.8	-	2.8
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts (1) and for debts (1) with respect to which it was calculated						
Recorded debit balance of debts (1):						
Evaluated on an individual basis (4)	1,706.0	-	20.2	1,726.2	-	1,726.2
Evaluated on a collective basis (**)(4)	179.6	7,023.9	1,071.2	8,274.7		8,274.7
Total debts (1)	**1,885.6**	**7,023.9**	**1,091.4**	**10,000.9**	**-**	**10,000.9**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	76.0	6,759.5	-	6,835.5	-	6,835.5
Provision for credit losses with respect to debts (1)						
Evaluated on an individual basis (4)	5.7	- (3)	9.1	14.8	-	14.8
Evaluated on a collective basis (***) (4)	1.6	59.8 (2)	35.4	96.8	-	96.8
Total provision for credit losses	**7.3**	**59.8**	**44.5**	**111.6**	**-**	**111.6**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.3	59.8	-	60.1	-	60.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 5.5 million, and which was calculated on a collective basis in the amount of NIS 24.2 million.
(3) Balance lower than NIS 0.1 million.
(4) Reclassified.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts[(1)] and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

	As of December 31, 2014					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	11.0	69.9	30.5	111.4	-	111.4
Expenses with respect to credit losses	(9.6)	(1.3)	29.3	18.4	-	18.4
Accounting write-offs	(0.2)	(6.8)	(30.5)	(37.5)	-	(37.5)
Collection of debts which were written off in previous years	9.0	2.7	6.7	18.4	-	18.4
Net accounting write-offs	8.8	(4.1)	(23.8)	(19.1)	-	(19.1)
Balance of the provision for credit losses at end of year (*)	**10.2**	**64.5**	**36.0**	**110.7**	**-**	**110.7**
(*) Of which: with respect to off-balance sheet credit instruments	1.5	0.9	0.4	2.8	-	2.8

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[1] (Cont.)

1. Credit quality and arrears

	As of December 31, 2016					
		Troubled [2]			Non-impaired debts Additional Information	
Activities of borrowers in Israel	Non-troubled	Non-impaired	Impaired[3]	Total	In arrears of 90 days or more [4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	935.2	-	18.6	953.8	-	-
Construction and real estate - real estate activities	443.4	6.5	11.0	460.9	5.1	2
Financial services	321.2	-	-	321.2	-	-
Commercial - other	18.0	0.1	0.6	18.7	-	-
Total commercial	**1,717.8**	**6.6**	**30.2**	**1,754.6**	**5.1**	**2.0**
Private individuals - housing loans	6,876.7	137.4[6]	-	7,014.1	137.4	29.3
Private individuals - other	1,087.0	21.2	15.7	1,123.9	10.6	24.8
Total public - activities in Israel	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**
Foreign banks	-	-	-	-	-	-
Total	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**

	As of December 31, 2015					
		Troubled [2]			Non-impaired debts - additional information	
Activities of borrowers in Israel	Non-troubled	Non-impaired	Impaired[3]	Total	In arrears of 90 days or more[4]	In arrears of 30 to 89 days[5]
Public - commercial						
Construction and real estate - construction	1,126.2	-	5.4	1,131.6	-	-
Construction and real estate - real estate activities	481.8	4.0	3.1	488.9	3.0	0.7
Financial services	165.8	-	-	165.8	-	-
Commercial - other	97.9	0.1	1.3	99.3	0.1	0.1
Total commercial	**1,871.7**	**4.1**	**9.8**	**1,885.6**	**3.1**	**0.8**
Private individuals - housing loans	6,853.8	170.1[6]	-	7,023.9	164.6	32.2
Private individuals - other	1,055.4	20.1	15.9	1,091.4	10.7	10.1
Total public - activities in Israel	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**
Foreign banks	-	-	-	-	-	-
Total	**9,780.9**	**194.3**	**25.7**	**10,000.9**	**178.4**	**43.1**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.

(2) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(3) In general, impaired debt does not accrue interest income. For details regarding certain impaired debts which were restructured in the troubled debt restructuring, see Note 5.B.2.C. below.

(4) Classified as non-impaired troubled debts. Accumulate interest income.

(5) Accumulate interest income. Debts in arrears of 30 to 89 days, in the amount of NIS 8.6 million, were classified as non-impaired troubled debts (December 31, 2015 - NIS 7.3 million).

(6) Including the balance of housing loans in the amount of NIS 7.9 million, with a provision according to the extent of the arrears, regarding which an arrangement was signed regarding the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due (December 31, 2015 - NIS 9.8 million).

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[(1)] (Cont.)

2. Additional information regarding impaired debt

A. Impaired debts and specific provision

	As of December 31, 2016				
Activities of borrowers in Israel	**Balance of impaired debts for which a specific provision exists** [(2)] [(3)]	**Balance of specific provision** [(3)]	**Balance of impaired debts for which no provision exists** [(2)] [(3)]	**Total balance of impaired debts** [(2)]	**Balance of contractual principal of impaired debts**
Public - commercial					
Construction and real estate - construction	-	-	18.6	18.6	26.1
Construction and real estate - real estate activities	-	-	11.0	11.0	12.3
Financial services	-	-	-	-	-
Commercial - other	-	-	0.6	0.6	0.6
Total commercial	**-**	**-**	**30.2**	**30.2**	**39.0**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	-	-	15.7	15.7	33.9
Total public - activities in Israel	**-**	**-**	**45.9**	**45.9**	**72.9**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**-**	**-**	**45.9**	**45.9**	**72.9**
Foreign banks	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**45.9**	**45.9**	**72.9**
Of which:					
Measured according to the present value of cash flows	-	-	5.2	5.2	
Debts in troubled debt restructuring	-	-	21.8	21.8	

	As of December 31, 2015				
Activities of borrowers in Israel	**Balance of impaired debts for which a specific provision exists** [(2)] [(3)]	**Balance of specific provision** [(3)]	**Balance of impaired debts for which no provision exists** [(2)] [(3)]	**Total balance of impaired debts** [(2)]	**Balance of contractual principal of impaired debts**
Public - commercial					
Construction and real estate - construction	-[(4)]	-[(4)]	5.4[(4)]	5.4	12.9
Construction and real estate - real estate activities	-[(4)]	-[(4)]	3.1[(4)]	3.1	3.7
Financial services	-	-	-	-	-
Commercial - other	-[(4)]	-[(4)]	1.3[(4)]	1.3	1.1
Total commercial	**-**	**-**	**9.8**	**9.8**	**17.7**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	-[(4)]	-[(4)]	15.9[(4)]	15.9	29.0
Total public - activities in Israel	**-**	**-**	**25.7**	**25.7**	**46.7**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**-**	**-**	**25.7**	**25.7**	**46.7**
Foreign banks	-	-	-	-	-
Total	**-**	**-**	**25.7**	**25.7**	**46.7**
Of which:					
Measured according to the present value of cash flows	-	-	6.2	6.2	
Debts in troubled debt restructuring	-[(4)]	-[(4)]	23.3	23.3[(4)]	

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[1] (Cont.)

2. Additional information regarding impaired debt

A. Impaired debts and specific provision

Activities of borrowers in Israel	As of December 31, 2015				
	Balance of [2] impaired debts for which a specific provision exists [3]	Balance of specific provision[3]	Balance of [2] impaired debts for which no provision exists [3]	Total balance [2] of impaired debts	Balance of contractual principal of impaired debts
Public - commercial					
Construction and real estate - construction	-[4]	-[4]	5.4[4]	5.4	12.9
Construction and real estate - real estate activities	-[4]	-[4]	3.1[4]	3.1	3.7
Financial services	-	-	-	-	-
Commercial - other	-[4]	-[4]	1.3[4]	1.3	1.1
Total commercial	**-**	**-**	**9.8**	**9.8**	**17.7**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	-[4]	-[4]	15.9[4]	15.9	29.0
Total public - activities in Israel	**-**	**-**	**25.7**	**25.7**	**46.7**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**-**	**-**	**25.7**	**25.7**	**46.7**
Foreign banks	-	-	-	-	-
Total	**-**	**-**	**25.7**	**25.7**	**46.7**
Of which:					
Measured according to the present value of cash flows	-	-	6.2	6.2	
Debts in troubled debt restructuring	-[4]	-[4]	23.3	23.3[4]	

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.
(2) Recorded debit balance.
(3) Specific provision for credit losses.
(4) Reclassified.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[(1)] (Cont.)

2. Additional information regarding impaired debts

	As of December 31, 2016			As of December 31, 2015		
	Average balance of impaired debts [(2)]	Interest income which was recorded [(3)]	Of which, recorded on a cash basis	Average balance of impaired debts [(2)]	Interest income which was recorded [(3)]	Of which, recorded on a cash basis
Public - commercial						
Construction and real estate - construction	10.6	0.2	0.2	9.3	0.3	0.3
Construction and real estate - real estate activities	7.7	0.1	0.1	1.7	0.1	0.1
Commercial - other	0.9	0.1	0.1	3.1	0.1	0.1
Total commercial	**19.2**	**0.4**	**0.4**	**14.1**	**0.5**	**0.5**
Private individuals - housing loans	-	-	-	0.1	-	-
Private individuals - other	16.6	1.6	1.6	14.5	0.7	0.7
Total	**35.8**	**2.0**[(4)]	**2.0**	**28.7**	**1.2**[(4)]	**1.2**

	As of December 31, 2014		
Public - commercial			
Construction and real estate - construction	30.4	0.7	1.8
Construction and real estate - real estate activities	2.7	-[(5)]	0.2
Commercial - other	5.4	**0.1**	-
Total commercial	**38.5**	**0.8**	**2.0**
Private individuals - housing loans	**0.9**	-	-
Private individuals - other	11.1	0.5	0.1
Total	**50.5**	**1.3**[(4)]	**2.1**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements
(2) Average recorded debit balance of impaired debts during the reporting period.
(3) Interest income which was recorded during the reporting period, with respect to the average balance of impaired debts, during the time period in which the debts were classified as impaired.
(4) Had the debts accrued interest in accordance with their original terms, interest income would have been recorded in the amount of NIS 2.3 million, for the year ended December 31, 2016 (for the year ended December 31, 2015 - NIS 1.2 million; and for the year ended December 31, 2014 - NIS 2.4 million).
(5) Balance lower than NIS 0.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[1] (Cont.)

2. Additional information regarding impaired debt

C. Troubled debts in restructuring - borrowers' activities in Israel

	As of December 31, 2016				
	Recorded debit balance				
	Non-accruing Interest income	Accruing[2] In arrears of 90 days or more	Accruing[2] In arrears of 30 to 89 days	Accruing[2] Not in arrears	Total[3]
Public - commercial					
Construction and real estate - construction	0.2	-	-	4.1	4.3
Construction and real estate - real estate activities	0.6	-	-	0.6	1.2
Financial services	-	-	-	-	-
Commercial - other	-	-	-	0.6	0.6
Total commercial	**0.8**	**-**	**-**	**5.3**	**6.1**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	8.5	-	-	7.2	15.7
Total	**9.3**	**-**	**-**	**12.5**	**21.8**

	As of December 31, 2015				
	Recorded debit balance				
Public - commercial					
Construction and real estate - construction	-	-	-	4.6	4.6
Construction and real estate - real estate activities	0.7	-	-	0.8	1.5
Financial services	-	-	-	-	-
Commercial - other	0.3	-	-	1.0	1.3
Total commercial	**1.0**	**-**	**-**	**6.4**	**7.4**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	9.9	-	-	6.0	**15.9**
Total	**10.9**	**-**	**-**	**12.4**	**23.3**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements
(2) Accrues interest income
(3) Included under impaired debts
As of December 31, 2016, there are no liabilities in the Bank for the provision of additional credit to debtors regarding whom a troubled debt restructuring was performed, which involved the implementation of changes to the credit terms.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[(1)] (Cont.)

2. Additional information regarding impaired debt

C. Troubled debts in restructuring - borrowers' activities in Israel

	Restructurings which were performed in the reporting year								
	December 31, 2016			December 31, 2015			December 31, 2014		
	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring
Public - commercial									
Construction and real estate - construction	1	-[(4)]	-[(4)]	-	-	-	-	-	-
Construction and real estate - real estate activities	-	-	-	1	0.7	0.7	-	-	-
Commercial - other	**-**	**-**	**-**	2	0.3	0.3	-	-	-
Total commercial	1	-	-	**3**	**1.0**	**1.0**	**-**	**-**	**-**
Private individuals - housing loans	-	-	-	-	-	-	-	-	-
Private individuals - other	364	8.5	8.5	465	10.1	10.1	293	6.4	6.4
Total activities in Israel	**365**	**8.5**	**8.5**	**468**	**11.1**	**11.1**	**293**	**6.4**	**6.4**

	Failed restructurings [(2)]					
	December 31, 2016		December 31, 2015		December 31, 2014	
	Number of contracts	Debit balance Recorded	Number of contracts	Debit balance Recorded	Number of contracts	Debit balance Recorded
Public - commercial						
Commercial - other	-	-	-	-	-	-
Total commercial	-	-	-	-	**-**	**-**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	53	0.9[(3)]	72	0.3[(3)]	50	1.1[(3)]
Total	**53**	**0.9**	**72**	**0.3**	**50**	**1.1**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements

(2) Debts which became, during the reporting year, debts in arrears of 30 days or more, which were restructured in a troubled debt restructuring during the 12 months which preceded the date when they became debts in arrears.

(3) Beginning with the reports for 2015, the Bank has applied an update to the collection of questions and answers on the subject of impaired debts, credit risk and the provision for credit losses, which requires, inter alia, debts which are estimated on a collective basis which were restructured, as well as failed restructurings, to be written off within a maximum of 60 days. The Bank will adopt the directive prospectively. For additional details, see Note 1H.7.

(4) Amount lower than NIS 0.1 million

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts[1] (Cont.)

3. Additional information regarding housing loans

Balances as of the end of the year, by financing rate (LTV)[2], repayment type and interest type

		As of December 31, 2016			
		Balance of housing loans			Credit risk Off-balance sheet Total
		Total [1]	[2] Of which: Bullet and balloon	[2] Of which: Variable interest	
First priority pledge: financing rate	Up to 60%	5,648.2	288.0	4,126.5	199.4
	Over 60%	1,348.8	54.3	1,092.6	23.4
Second priority pledge or no pledge		17.1	2.1	9.4	0.5
Total		**7,014.1**	**344.4**	**5,228.5**	**223.3**

		As of December 31, 2015			
		Balance of housing loans			Credit risk Off-balance sheet Total
		Total [1]	[2] Of which: Bullet and balloon	[1] Of which: Variable interest	
First priority pledge: financing rate	Up to 60%	5,585.3	182.7	4,256.3	460.7
	Over 60%	1,403.8	44.8	1,172.3	49.1
Second priority pledge or no pledge		34.8	0.9	22.2	3.7
Total		**7,023.9**	**228.4**	**5,450.8**	**513.5**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements

(2) The ratio between the approved facility upon the provision of the facility, and the value of the asset, as approved by the Bank upon provision of the facility.

Credit quality - LTV ratio

The LTV ratio constitutes an additional indication of credit quality for the Bank. The LTV ratio is the ratio between the loan amount and the estimated value of the financed asset which was approved by the Bank when the facility was provided. Note 30.B.3. presents debit balances with respect to housing loans, segmented by LTB ratio ranges and pledge priority levels.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

C. Credit to the public and off-balance sheet credit risk, by the borrower's credit size

	As of December 31, 2016			As of December 31, 2015		
Maximum credit limit, NIS Thousands	**Number of borrowers (1)**	**Credit (2)**	**Credit risk Off-balance sheet (2) (3)**	**Number of borrowers (1)**	**Credit (2)**	**Credit risk Off-balance sheet (2) (3)**
Up to 10	10,615	27.8	11.4	11,115	27.2	11.5
10 to 20	6,738	81.8	17.6	7,034	76.5	22.0
20 to 40	10,658	286.7	31.3	10,653	262.4	41.4
40 to 80	12,247	591.4	35.2	12,217	569.2	47.4
80 to 150	3,032	302.6	22.0	3,240	316.0	26.5
150 to 300	3,724	791.4	16.0	3,952	820.4	20.0
300 to 600	4,806	2,016.4	37.0	4,693	1,891.9	64.6
600 to 1,200	2,715	2,011.9	158.6	2,812	1,962.9	229.9
1,200 to 2,000	741	976.9	108.8	778	973.1	142.2
2,000 to 4,000	340	797.4	104.1	411	860.5	193.8
4,000 to 8,000	134	549.2	175.7	152	631.4	174.7
8,000 to 20,000	53	402.1	201.8	70	503.8	291.0
20,000 to 40,000	27	375.3	393.4	24	516.3	245.4
40,000 to 200,000	12	407.1	248.6	14	589.3	188.1
200,000 to 280,000	1	274.6	0.3	-	-	-
	55,843	**9,892.6**	**1,561.8**	**57,165**	**10,000.9**	**1,698.5**

(1) Number of borrowers, by total credit and off-balance sheet credit risk.
(2) Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

D. Off-balance sheet financial instruments

Contract balances or specified amounts at end of year

	As of December 31			
	2016	2015	2016	2015
	Balances of contracts [1]		Balance of the provision for credit losses [2]	
Transactions in which the balance represents credit risk:				
Guarantees to secure credit [1]	118.8	78.9	0.5	0.3
Guarantees to apartment buyers	32.2	60.9	0.1	0.2
Other guarantees and liabilities	131.9	122.6	0.3	0.2
Unused credit facilities of credit cards	136.6	184.7	0.4	0.5
Unused revolving debitory account facilities and other credit facilities in accounts on demand	31.0	50.1	- [3]	-
Irrevocable undertakings to provide credit which have been approved and not yet provided	1,124.9	1,214.9	1.6	1.6
Total	**1,575.4**	**1,712.1**	**2.9**	**2.8**

(1) Balances or specified amounts of contracts at the end of the period, before the effect of the provision for credit losses.
(2) Balance of the provision for credit losses at end of period.
(3) Balance lower than NIS 0.1 million.

Note 31 - Assets and Liabilities by Linkage Bases - Consolidated

Reported amounts in millions of NIS

	As of December 31, 2016					
	Israeli currency		Foreign currency [1]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,417.8	-	75.6	28.6	-	2,522.0
Securities	1,125.0	10.5	149.1	143.8	6.1	1,434.5
Credit to the public, net[2]	5,305.5	3,403.8	893.3	187.5	-	9,790.1
Buildings and equipment	-	-	-	-	157.8	157.8
Intangible assets	-	-	-	-	0.8	0.8
Assets with respect to derivative instruments	108.3	-	42.5	0.3	-	151.1
Other assets	95.6	5.6	-	-	44.5	145.7
Total assets	**9,052.2**	**3,419.9**	**1,160.5**	**360.2**	**209.2**	**14,202.0**
Liabilities						
Public deposits	7,439.7	1,899.7[3]	1,129.0	399.9	-	10,868.3
Deposits from banks	-	36.5	-	-	-	36.5
Government deposits	1.1	-	-	-	-	1.1
Lent securities	415.1	175.3	-	-	-	590.4
Bonds and deferred liability notes	428.6	1,153.2	0.3	-	-	1,582.1
Liabilities in respect of derivative instruments	106.9	-	39.3	0.5	-	146.7
Other liabilities	111.5	-	12.0	0.4	44.7	168.6
Total liabilities	**8,502.9**	**3,264.7**	**1,180.6**	**400.8**	**44.7**	**13,393.7**
Difference	549.3	155.2	(20.1)	(40.6)	164.5	808.3
Non-hedging derivative instruments						
Derivative instruments (excluding options)	(21.5)	(50.0)	26.2	45.3	-	-
Total general	**527.8**	**105.2**	**6.1**	**4.7**	**164.5**	**808.3**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases
(3) Including savings plans with a minimum NIS limit of NIS 314.1 million (as of December 31, 2015: NIS 324.2 million).
(4) Non-hedge according to hedge accounting

Note 31 - Assets and Liabilities by Linkage Bases - Consolidated

Reported amounts in millions of NIS

	As of December 31, 2015					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	1,909.0	-	134.2	28.7	-	2,071.9
Securities	1,216.4	49.7	378.2	126.8	8.4	1,779.5
Credit to the public, net[2]	5,383.6	3,382.9	984.9	137.9	-	9,889.3
Buildings and equipment	-	-	-	-	156.9	156.9
Intangible assets	-	-	-	-	1.2	1.2
Assets with respect to derivative instruments	181.7	-	12.9	0.5	-	195.1
Other assets	74.6	5.3	-	-	45.7	125.6
Total assets	**8,765.3**	**3,437.9**	**1,510.2**	**293.9**	**212.2**	**14,219.5**
Liabilities						
Public deposits	6,884.3	2,323.6[3]	1,526.2	284.9	-	11,019.0
Deposits from banks	-	39.4	-	-	-	39.4
Government deposits	0.8	-	-	-	-	0.8
Lent securities	279.6	107.7	-	-	-	387.3
Bonds and deferred liability notes	491.2	1,143.3	0.3	-	-	1,634.8
Liabilities in respect of derivative instruments	181.7	1.9	11.6	-	-	195.2
Other liabilities	83.5	-	15.5	0.6	59.4	159.0
Total liabilities	**7,921.1**	**3,615.9**	**1,553.6**	**285.5**	**59.4**	**13,435.5**
Difference	844.2	(178.0)	(43.4)	8.4	152.8	784.0
Non-hedging derivative instruments [4]						
Derivative instruments (excluding options)	(250.8)	198.2	49.0	3.6	-	-
Total general	**593.4**	**20.2**	**5.6**	**12.0**	**152.8**	**784.0**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases
(3) Including savings plans with a minimum NIS limit of NIS 314.1 million (as of December 31, 2015: NIS 324.2 million).
(4) Non-hedge according to hedge accounting

Note 31 - Assets and Liabilities by Linkage Bases - Bank

Reported amounts in millions of NIS

	As of December 31, 2016					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,417.8	-	75.6	28.6	-	2,522.0
Securities	1,125.0	10.5	149.1	143.8	6.1	1,434.5
Credit to the public, net[2]	5,305.5	3,403.8	893.3	187.5	-	9,790.1
Investments in investee companies	22.1	-	-	-	374.9	397.0
Buildings and equipment	-	-	-	-	11.3	11.3
Intangible assets	-	-	-	-	0.8	0.8
Assets with respect to derivative instruments	108.3	-	42.5	0.3	-	151.1
Other assets	91.3	-	-	-	42.9	134.2
Total assets	**9,070.0**	**3,414.3**	**1,160.5**	**360.2**	**436.0**	**14,441.0**
Liabilities						
Public deposits	7,917.7	2,701.1[3]	1,129.0	399.9	-	12,147.7
Deposits from banks	-	36.5	-	-	-	36.5
Government deposits	1.1	-	-	-	-	1.1
Lent securities	415.1	175.3	-	-	-	590.4
Bonds and deferred liability notes	212.2	346.8	0.3	-	-	559.3
Liabilities in respect of derivative instruments	106.9	-	39.3	0.5	-	146.7
Other liabilities	93.9	-	12.0	0.4	44.7	151.0
Total liabilities	**8,746.9**	**3,259.7**	**1,180.6**	**400.8**	**44.7**	**13,632.7**
Difference	323.1	154.6	(20.1)	(40.6)	391.3	808.3
Non-hedging derivative instruments						
Derivative instruments (excluding options) [4]	(21.5)	(50.0)	26.2	45.3	-	-
Total general	**301.6**	**104.6**	**6.1**	**4.7**	**391.3**	**808.3**

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases
(3) Including savings plans with a minimum NIS limit of NIS 490.2 million (as of December 31, 2015: NIS 324.2 million).
(4) Non-hedge according to hedge accounting

Note 31 - Assets and Liabilities by Linkage Bases - Bank

Reported amounts in millions of NIS

	As of December 31, 2015					
	Israeli currency		Foreign currency[1]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	1,909.0	-	134.2	28.7	-	2,071.9
Securities	1,234.2	49.7	378.2	126.8	8.4	1,797.3
Credit to the public, net[2]	5,383.6	3,382.9	984.9	137.9	-	9,889.3
Investments in investee companies	21.5	-	-	-	364.1	385.6
Buildings and equipment	-	-	-	-	12.8	12.8
Intangible assets	-	-	-	-	1.2	1.2
Assets with respect to derivative instruments	181.7	-	12.9	0.5	-	195.1
Other assets	67.9	-	-	-	43.5	111.4
Total assets	**8,797.9**	**3,432.6**	**1,510.2**	**293.9**	**430.0**	**14,464.6**
Liabilities						
Public deposits	7,501.6	3,188.7[3]	1,526.2	284.9	-	12,501.4
Deposits from banks	-	39.4	-	-	-	39.4
Government deposits	0.8	-	-	-	-	0.8
Lent securities	279.6	107.7	-	-	-	387.3
Bonds and deferred liability notes	115.5	292.4	0.3	-	-	408.2
Liabilities in respect of derivative instruments	181.7	1.9	11.6	-	-	195.2
Other liabilities	72.6	-	15.5	0.6	59.6	148.3
Total liabilities	**8,151.8**	**3,630.1**	**1,553.6**	**285.5**	**59.6**	**13,680.6**
Difference	646.1	(197.5)	(43.4)	8.4	370.4	784.0
Non-hedging derivative instruments [4]						
Derivative instruments (excluding options)	(250.8)	198.2	49.0	3.6	-	-
Total general	**395.3**	**0.7**	**5.6**	**12.0**	**370.4**	**784.0**

Note 32 - Assets and Liabilities by Currency and Repayment Period - Consolidated [(1)]

Reported amounts in millions of NIS

	Expected contractual cash flows				
	On demand Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 2 years	2 years to 3 years
As of December 31, 2016					
Israeli currency (including foreign currency-linked)					
Assets*	3,059.9	302.3	1,679.0	1,456.0	1,152.3
Liabilities **	4,198.8	678.2	2,046.6	1,850.8	1,078.9
Difference	(1,138.9)	(375.9)	(367.6)	(394.8)	73.4
Derivative instruments (excluding options)	(155.1)	19.1	64.5	-	-
Difference after the effect of derivative instruments	(1,294.0)	(356.8)	(303.1)	(394.8)	73.4
Foreign currency [(3)]					
Assets*	236.1	52.2	164.9	211.8	112.9
Liabilities **	865.8	330.0	289.1	68.7	-
Difference	629.7	(277.8)	(124.2)	143.1	112.9
Of which: difference - in USD	(422.8)	(294.0)	(54.4)	125.5	95.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	155.0	(19.0)	(64.5)	-	-
Difference after the effect of derivative instruments	474.7	(296.8)	(188.7)	143.1	112.9
Total					
Assets*	**3,296.0**	**354.5**	**1,843.9**	**1,667.8**	**1,265.2**
Liabilities **	**5,064.6**	**1,008.2**	**2,335.7**	**1,919.5**	**1,078.9**
Difference	**(1,768.6)**	**(653.7)**	**(491.8)**	**(251.7)**	**186.3**
* Of which: credit to the public	555.7	296.4	1,409.9	1,367.7	1,093.6
** Of which: public deposits	4,188.1	947.2	2,174.9	1,624.6	746.0
As of December 31, 2015					
Israeli currency (including foreign currency-linked)					
Assets*	2,526.3	498.8	1,942.5	1,431.4	1,006.4
Liabilities **	4,026.0	519.1	2,079.1	2,055.0	837.2
Difference	(1,499.7)	(20.2)	(136.6)	(623.6)	169.2
Derivative instruments (excluding options)	(178.7)	-	126.0	-	-
Difference after the effect of derivative instruments	(1,678.4)	(20.2)	(10.6)	(623.6)	169.2
Foreign currency [(3)]					
Assets*	175.4	117.2	413.4	114.3	113.2
Liabilities **	1,149.2	233.5	330.0	78.4	0.2
Difference	(973.8)	(116.3)	83.4	35.9	113.0
Of which: difference - in USD	(746.4)	(188.8)	(217.0)	23.6	98.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	178.6	0.1	(126.0)	-	-
Difference after the effect of derivative instruments	(795.2)	(116.2)	(42.6)	35.9	113.0
Total					
Assets*	**2,701.7**	**616.1**	**2,356.0**	**1,545.7**	**1,119.6**
Liabilities **	**5,175.2**	**752.6**	**2,409.1**	**2,133.4**	**837.3**
Difference	**(2,473.5)**	**(136.5)**	**(53.2)**	**(587.7)**	**282.2**
* Of which: credit to the public	312.7	462.4	1,563.3	1,320.5	1,071.1
** Of which: public deposits	4,478.0	689.0	2,163.1	1,903.4	557.2

Note 32 - Assets and Liabilities by Currency and Repayment Period - Consolidated [1] (cont.)

Reported amounts in millions of NIS

Expected contractual cash flows						Balance sheet balances [4]		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total Cash flows	No repayment period [2]	Total	Contractual rate of return [5]
836.2	706.7	2,722.0	2,567.0	535.3	15,016.7	4.4	12,515.9	3.75%
799.7	747.2	444.1	209.0	-	12,053.3	-	11,828.0	0.93%
36.5	(40.5)	2,277.9	2,358.0	535.3	2,963.4	4.4	687.9	
-	-	-	-	-	(71.5)	-	(71.5)	
36.5	(40.5)	2,277.9	2,358.0	535.3	2,891.9	4.4	616.4	
109.7	102.8	426.2	292.3	43.5	1,752.4	-	1,476.9	3.05%
-	-	0.3	-	-	1,553.9	-	1,521.0	0.55%
109.7	102.8	425.9	292.3	43.5	198.5	-	(44.1)	
90.1	86.0	348.0	235.1	38.3	247.5		8.7	
-	-	-	-	-	-	-	-	
-	-	-	-	-	71.5	-	71.5	
109.7	102.8	425.9	292.3	43.5	270.0	-	27.4	
945.9	**809.5**	**3,148.2**	**2,859.3**	**578.8**	**16,769.1**	**4.4**	**13,992.8**	**3.68%**
799.7	**747.2**	**444.4**	**209.0**	**-**	**13,607.2**	**-**	**13,349.0**	**0.89%**
146.2	**62.3**	**2,703.8**	**2,650.3**	**578.8**	**3,161.9**	**4.4**	**643.8**	
874.9	798.0	2,794.3	2,801.3	498.0	12,489.8	4.4	9,790.1	4.85%
540.9	264.8	394.9	165.9	-	11,047.3	-	9,399.8	0.81%
788.8	664.6	2,751.8	2,490.5	524.0	14,625.3	3.8	12,276.6	3.31%
427.0	835.0	846.4	249.9	-	11,874.8		11,590.0	0.94%
361.8	(170.4)	1,905.4	2,240.6	524.0	2,750.5	3.8	686.6	
-	-	-	-	-	(52.7)		(52.7)	
361.8	(170.4)	1,905.4	2,240.6	524.0	2,697.8	3.8	633.9	
131.0	104.1	446.1	332.7	77.9	2,025.3		1,730.7	2.51%
-	-	-	-	-	1,791.3		1,786.1	0.49%
131.0	104.1	446.1	332.7	77.9	234.1	-	(55.4)	
94.4	89.3	374.9	274.3	1.9	(195.9)		(427.2)	
-	-	-	-	-	-			
-	-	-	-	-	52.7		52.7	
131.0	104.1	446.1	332.7	77.9	286.8	-	(2.7)	
919.8	**768.7**	**3,197.9**	**2,823.2**	**602.0**	**16,650.6**	**3.8**	**14,007.3**	**3.21%**
427.0	**835.0**	**846.4**	**249.9**	**-**	**13,666.0**	**-**	**13,376.1**	**0.88%**
492.8	**(66.3)**	**2,351.5**	**2,573.3**	**602.0**	**2,984.6**	**3.8**	**631.2**	
865.1	743.5	2,793.2	2,777.0	449.0	12,357.8	3.8	9,889.3	4.21%
103.6	585.1	480.6	245.3	-	11,205.3		11,019.0	1.03%

Note 32 - Assets and Liabilities by Currency and by Repayment Period - Bank [1]

Reported amounts in millions of NIS

	As of December 31, 2016				
	Expected contractual cash flows				
	On demand Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 2 years	2 years to 3 years
Israeli currency (including foreign currency-linked)					
Assets*	3,059.3	302.3	1,679.0	1,456.0	1,152.3
Liabilities **	4,400.4	478.3	2,088.0	2,086.7	1,083.5
Difference	(1,341.1)	(176.0)	(409.0)	(630.7)	68.8
Derivative instruments (excluding options)	(155.1)	19.1	64.5	-	-
Difference after the effect of derivative instruments	(1,496.2)	(156.9)	(344.5)	(630.7)	68.8
Foreign currency [3]					
Assets*	236.1	52.2	164.9	211.8	112.9
Liabilities **	865.8	330.0	289.1	68.7	-
Difference	(629.7)	(277.8)	(124.2)	143.1	112.9
Of which: difference - in USD	(422.8)	(294.0)	(54.4)	125.5	95.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	155.0	(19.0)	(64.5)	-	-
Difference after the effect of derivative instruments	(474.7)	(296.8)	(188.7)	143.1	112.9
Total					
Assets*	**3,295.4**	**354.5**	**1,843.9**	**1,667.8**	**1,265.2**
Liabilities **	**5,266.2**	**808.3**	**2,377.1**	**2,155.4**	**1,083.5**
Difference	**(1,970.8)**	**(453.8)**	**(533.2)**	**(487.6)**	**181.7**
* Of which: credit to the public	555.7	296.4	1,409.9	1,367.7	1,093.6
** Of which: public deposits	4,421.6	805.1	2,289.5	2,091.0	977.1

	As of December 31, 2015				
	Expected contractual cash flows				
Assets*	2,514.3	498.9	1,960.5	1,431.4	1,006.4
Liabilities **	4,168.6	522.2	2,147.1	2,056.7	842.8
Difference	(1,654.3)	(23.3)	(186.6)	(625.3)	163.6
Derivative instruments (excluding options)	(178.7)	-	126.0	-	-
Difference after the effect of derivative instruments	(1,833.0)	(23.3)	(60.6)	(625.3)	163.6
Foreign currency [3]					
Assets*	175.4	117.2	413.4	114.3	113.2
Liabilities **	1,149.2	233.5	330.0	78.4	0.2
Difference	(973.8)	(116.3)	83.4	35.9	113.0
Of which: difference - in USD	(746.4)	(188.8)	(217.0)	23.6	98.0
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	178.6	0.1	(126.0)	-	-
Difference after the effect of derivative instruments	(795.2)	(116.2)	(42.6)	35.9	113.0
Total					
Assets*	**2,689.7**	**616.1**	**2,373.9**	**1,545.7**	**1,119.6**
Liabilities **	**5,317.8**	**755.8**	**2,477.1**	**2,135.1**	**842.9**
Difference	**(2,628.1)**	**(139.6)**	**(103.2)**	**(589.4)**	**276.6**
* Of which: credit to the public	312.7	462.4	1,563.3	1,320.5	1,071.1
** Of which: public deposits	4,631.5	751.0	2,393.7	2,051.5	794.4

Note 32 - Assets and Liabilities by Currency and by Repayment Period - Bank [1] (Cont.)

Reported amounts in millions of NIS

As of December 31, 2016								
Expected contractual cash flows						Balance sheet balances [4]		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total Cash flows	No repayment period [2]	Total	Contractual rate of return [5]
836.2	706.7	2,722.0	2,567.0	535.3	15,016.1	4.4	12,528.1	3.75%
812.1	588.6	583.4	209.0	-	12,330.0	-	12,067.0	0.75%
24.1	118.1	2,138.6	2,358.0	535.3	2,686.1	4.4	461.1	
-	-	-	-	-	(71.5)	-	(71.5)	
24.1	118.1	2,138.6	2,358.0	535.3	2,614.6	4.4	389.6	
109.7	102.8	426.2	292.3	43.5	1,752.4	-	1,476.9	3.05%
-	-	0.3	-	-	1,553.9	-	1,521.0	0.55%
109.7	102.8	425.9	292.3	43.5	198.5	-	(44.1)	
90.1	86.0	348.0	235.1	38.3	247.5	-	8.7	
-	-	-	-	-	-	-	-	
-	-	-	-	-	71.5	-	71.5	
109.7	102.8	425.9	292.3	43.5	270.0	-	27.4	
945.9	**809.5**	**3,148.2**	**2,859.3**	**578.8**	**16,768.5**	**4.4**	**14,005.0**	**3.68%**
812.1	**588.6**	**583.7**	**209.0**	**-**	**13,883.9**	**-**	**13,588.0**	**0.73%**
133.8	**220.9**	**2,564.5**	**2,650.3**	**578.8**	**2,884.6**	**4.4**	**417.0**	
874.9	798.0	2,794.3	2,801.3	498.0	12,489.8	4.4	9,790.1	4.85%
704.2	402.8	534.2	165.9	-	12,391.4	-	12,147.7	0.70%
As of December 31, 2015								
Expected contractual cash flows						**Balance sheet balances** [4]		
788.8	664.6	2,751.8	2,490.5	524.0	14,631.2	3.8	12,303.9	3.31%
430.0	843.4	846.4	249.9	-	12,107.1		11,834.9	0.80%
358.8	(178.7)	1,905.4	2,240.6	524.0	2,524.1	3.8	469.0	
-	-	-	-	-	(52.7)		(52.7)	
358.8	(178.7)	1,905.4	2,240.6	524.0	2,471.4	3.8	416.3	
131.0	104.1	446.1	332.7	77.9	2,025.3		1,730.7	2.51%
-	-	-	-	-	1,791.3		1,786.1	0.49%
131.0	104.1	446.1	332.7	77.9	234.1	-	(55.4)	
94.4	89.3	374.9	274.3	1.9	(195.9)		(28.9)	
-	-	-	-	-	-			
-	-	-	-	-	52.7		52.7	
131.0	104.1	446.1	332.7	77.9	286.8	-	(2.7)	
919.8	**768.7**	**3,197.9**	**2,823.2**	**602.0**	**16,656.6**	**3.8**	**14,034.6**	**3.21%**
430.0	**843.4**	**846.4**	**249.9**	**-**	**13,898.4**	**-**	**13,621.0**	**0.76%**
489.8	**(74.6)**	**2,351.5**	**2,573.3**	**602.0**	**2,758.2**	**3.8**	**413.6**	
865.1	743.5	2,793.2	2,777.0	449.0	12,357.8	3.8	9,889.3	4.21%
334.3	745.5	776.3	245.3	-	12,723.4		12,501.4	0.86%

Note 32 - Assets and Liabilities by Currency and Repayment Period - Consolidated (1)

(1) In this note, the expected future contractual cash flows with respect to the assets and liabilities items are presented by currencies, in accordance with the periods remaining until the contractual repayment date of each flow. The data are presented net of the effect of accounting write-offs and provisions for credit losses.
(2) Assets without a repayment period, including assets in the amount of NIS 4.4 million whose maturity date has passed (NIS 3.8 million as of December 31, 2015).
(3) Not including Israeli currency linked to foreign currency.
(4) As included in the note "Assets and Liabilities by Linkage Bases", including off-balance sheet amounts with respect to derivatives, uncleared, net.
(5) The projected rate of return is the interest rate which deducts the expected future contractual cash flows which are presented in this note with respect to monetary items, to their balance sheet balance.

Note 33A - Balances and Fair Value Estimates of Financial Instruments

A. Fair value of financial instruments

The information included in this note refers to the assessment of the fair value of financial instruments.

Regarding most of the Bank's financial instruments, "market prices" cannot be quoted, since there is no active market in which they are traded. Therefore, fair value is estimated using conventional pricing models, such as the present value of future cash flows, discounted at a rate which reflects the risk level embedded in the financial instrument. The estimation of fair value using forecasts of future cash flows and the determination of the discount interest rate are subjective. Therefore, for most financial instruments, the aforementioned fair value estimate is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value estimate is prepared according to the interest rates which are valid as of the reporting date, and do not take into account fluctuations in interest rates. Different assumptions regarding interest rates will result in fair value amounts which may be significantly different. The above generally applies to fixed interest bearing or non-interest bearing financial instruments. Additionally, the determination of fair value does not take into account fees which were received or paid though business activities, and do not include the tax impact.

It should be noted that it is possible that the difference between the balance sheet balance and the fair value balances will not be realized, due to the fact that, in most cases, the Bank may hold the financial instrument to maturity. Due to all of the above factors, it should be emphasized that the data included in this note do not indicate the value of the banking corporation as a going concern. Additionally, caution should be applied when conducting comparisons between the fair value amounts of various banks due to the multiplicity of valuation techniques and possible estimates for application when assessing fair value.

B - Main method and assumptions used to estimate the fair value of financial instruments

Deposits in banks, bonds and non-traded bills, and credit to the government - according to the discounted future cash flows method, based on interest rates at which the Bank executed similar transactions on the reporting date.

Marketable securities - by market value, non-marketable securities - by revaluation data which are received from external sources.

Credit to the public - the fair value of the balance of credit to the public is estimated using the method regarding the present value of future cash flows, less the appropriate discount rates. The balance of credit was distributed into categories by main population types, distributed by linkage and credit segments, according to fixed and variable interest rates. The cash flows (principal and interest) were discounted according to interest rates which are identical to the average interest rate used in the Bank for similar transactions on the reporting date. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal. The fair value of debit balances in checking accounts was estimated based on their balance sheet balance.

The fair value of troubled debt was calculated using discount interest rates which reflect the high credit risk embodied in them. These discount rates were no lower than the highest interest rate used by the Bank in its transactions as of the reporting date. Future cash flows for troubled debts were calculated after deducting write-offs and provisions for credit losses. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal.

Deposits, bonds and deferred liability notes - according to the future discounted cash flows method, using the interest rates at which the Bank raises similar deposits, or in issuances of similar bonds or deferred liability notes, by the Bank on the reporting date, excluding bonds listed for trading on the stock exchange, which are presented at market value. The fair value of credit balances in checking accounts and of deposits without a repayment date were estimated according to the balance sheet balance.

Regarding off-balance sheet financial instrument whose balance represents credit risk - Fair value was estimated according to the present value of future cash flows, discounted by the interest rate which reflects the interest level at which a similar transaction would have been performed on the reporting date. Derivative instruments for which there is an active market were estimated according to market value, and derivative instruments which are not traded on an active market were estimated according to models which were used by the Bank in its current operations, and which take into account the risks embodied in the financial instrument.

Financial instruments for an original period of up to three months, and at variable market interest - The balance sheet balance constitutes an approximation of fair value, subject to changes in credit risk and in the Bank's margin in variable interest transactions.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2016				
	Balance sheet balance	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits in banks	2,522.0	2,522.0	-	-	2,522.0
Securities (2)	1,434.5	1,427.6	0.8	6.1	1,434.5
Credit to the public, net(3)	9,790.1	-	-	9,744.5	9,744.5
Assets with respect to derivative instruments	151.1	147.9	3.2	-	151.1
Other financial assets	25.0	-	-	25.0	25.0
Total financial assets(4)	**13,922.7**	**4,097.5**	**4.0**	**9,775.6**	**13,877.1**
Financial liabilities					
Public deposits	10,868.3	-	2,310.9	8,574.9	10,885.8
Deposits from banks	36.5	-	-	43.0	43.0
Government deposits	1.1	-	-	1.1	1.1
Lent securities	590.4	590.4	-	-	590.4
Bonds and deferred liability notes	1,582.1	1,564.1	-	43.0	1,607.1
Liabilities in respect of derivative instruments	146.7	143.4	3.3	-	146.7
Other financial liabilities	124.0	-	-	124.0	124.0
Total financial liabilities (4)	**13,349.1**	**2,297.9**	**2,314.2**	**8,786.0**	**13,398.1**

	As of December 31, 2015				
	Balance sheet balance	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits in banks	2,071.9	2,071.9	-	-	2,071.9
Securities (2)	1,779.5	1,725.5	48.1	5.9	1,779.5
Credit to the public, net(3)	9,889.3	-	-	10,024.0	10,024.0
Assets with respect to derivative instruments	195.1	191.9	3.2	-	195.1
Other financial assets	10.5	-	-	10.5	10.5
Total financial assets(4)	**13,946.3**	**3,989.3**	**51.3**	**10,040.4**	**14,081.0**
Financial liabilities					
Public deposits	11,019.0	-	1,361.9	9,723.1	11,085.0
Deposits from banks	39.4	-	-	47.2	47.2
Government deposits	0.8	-	-	0.8	0.8
Lent securities	387.3	387.3	-	-	387.3
Bonds and deferred liability notes	1,634.8	1,468.5	-	187.7	1,656.2
Liabilities in respect of derivative instruments	195.2	191.9	3.3	-	195.2
Other financial liabilities	99.2	-	-	99.2	99.2
Total financial liabilities (4)	**13,375.7**	**2,047.7**	**1,365.2**	**10,058.0**	**13,470.9** (3)

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Cont.)

Reported amounts in millions of NIS

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

(2) For additional details regarding the balance sheet balance of securities, see the note regarding securities.

(3) Of which, damaged credit whose collection is conditional upon collateral as of December 31, 2016 and December 31, 2015 in the amount of NIS 17.0 million and NIS 3.2 million, respectively.

(4) Of which: Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2016 and December 31, 2015, in the amount of NIS 4,132.6 million and NIS 4,057.0 million, respectively. Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2016 and December 31, 2015, in the amount of NIS 3,172.0 million and NIS 2,043.6 million, respectively. For additional information regarding instruments which were measured at fair value on a repeated basis, and on a non-repeated basis, see Note 33B.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

	As of December 31, 2016			
	Fair value measurements used in:			
	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total Fair value
Assets				
Available for sale securities:				
Bonds - Government of Israel	637.2	-	-	637.2
Bonds - foreign governments	232.8	-	-	232.8
Bonds - other companies	-	0.8	-	0.8
Stocks and funds	-	-	6.1	6.1
Total available for sale securities	**870.0**	**0.8**	**6.1**	**876.9**
Marketable securities:				
Bonds - Government of Israel	531.2	-	-	531.2
Foreign government bonds	26.4	-	-	26.4
ETF's	-	-	-	-
Total marketable securities	**557.6**	**-**	**-**	**557.6**
Assets with respect to derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	3.7	-	3.7
Foreign currency contracts	0.4	3.1	-	3.5
Share contracts	143.9	-	-	143.9
Total assets with respect to derivative instruments:	**144.3**	**6.8**	**-**	**151.1**
Total financial assets	**1,571.9**	**7.6**	**6.1**	**1,585.6**
Liabilities				
Lent securities	590.4	-	-	590.4
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	0.1	1.3	-	1.4
Foreign currency contracts	0.4	1.0	-	1.4
Share contracts	143.9	-	-	143.9
Total liabilities in respect of derivative instruments	**144.4**	**2.3**	**-**	**146.7**
Total financial liabilities	**734.8**	**2.3**	**-**	**737.1**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

	As of December 31, 2015			
	Fair value measurements used in:			Total Fair value
	Level 1 [(1)]	Level 2 [(1)]	Level 3 [(1)]	
Assets				
Available for sale securities:				
Bonds - Government of Israel	787.9	-	-	787.9
Bonds - foreign governments	402.3	-	-	402.3
Bonds - other companies	2.7	12.6	-	15.3
Stocks and funds	-	-	5.9	5.9
Total available for sale securities	**1,192.9**	**12.6**	**5.9**	**1,211.4**
Marketable securities:				
Bonds - Government of Israel	511.5	-	-	511.5
Foreign government bonds	55.8	-	-	55.8
ETF's	0.8	-	-	0.8
Total marketable securities	**568.1**	-	**-**	**568.1**
Assets with respect to derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	1.3	-	1.3
Foreign currency contracts	0.9	1.9	-	2.8
Share contracts	191.0	-	-	191.0
Total assets with respect to derivative instruments:	**191.9**	**3.2**	**-**	**195.1**
Total financial assets	**1,952.9**	**15.8**	**5.9**	**1,974.6**
Liabilities				
Lent securities	387.3	-	-	387.3
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	1.9	-	1.9
Interest contracts - other	-	0.3	-	0.3
Foreign currency contracts	0.9	1.1	-	2.0
Share contracts	191.0	-	-	191.0
Total liabilities with respect to derivative instruments	**191.9**	**3.3**	**-**	**195.2**
Total financial liabilities	**579.2**	**3.3**	**-**	**582.5**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

Note 33 - Changes in Items Measured at Fair Value on a Repeated Basis Which Were Included on Level 3

Reported amounts in millions of NIS

	As of December 31, 2016					
		Realized and unrealized net income (loss) which were included				
	Fair value at start of period	In the statement of income	In other comprehensive income	Acquisitions	Fair value at end of period	Unrealized profit (loss) with respect to instruments held at end of period
Stocks and reserves in the available-for-sale portfolio	5.9	(0.1)	0.3	-	6.1	0.3
	As of December 31, 2015					
Stocks and reserves in the available-for-sale portfolio	-	-	-	5.9	5.9	-

Note 34 - Interested Parties and Related Parties [1] of the Bank and its Consolidated Companies

Reported amounts in millions of NIS

A - Balances

	As of December 31, 2016									
	Interested parties									
	Shareholders								Anyone who was a interested party when the transaction was executed	
	Controlling shareholders[2]		Others[3]		Corporate officers[4]		Others[5][6]			
	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]	As of December 31[8]	Highest balance during the year[9]
Assets										
Credit to the public	- [12]	0.1	-	-	1.5	1.6	-	-	0.4	0.6
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	- [12]	0.1	-	-	1.5	1.6	-	-	0.4	0.6
Liabilities										
Public deposits	5.4	7.1	-	-	1.7	1.7	0.3[11]	3.8[11]	2.4	3.0
Other liabilities - other payables and credit balances	-	-	-	-	-	-	-	-	-	-
Shares (included in equity) [9]	699.7	699.7	-	-	0.1	0.1	-	-	-	-
	As of December 31, 2015[13]									
Assets										
Credit to the public	- [12]	-	-	-	1.7	1.9	-	-	0.6	0.9
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	- [12]	-	-	-	1.7	1.9	-	-	0.6	0.9
Liabilities										
Public deposits	6.7	7.1	-	-	1.9	1.9	1.5[11]	334.4[11]	3.0	3.4
Other liabilities - other payables and credit balances	-	-	-	-	-	-	-	-	-	-
Shares (included in equity) [9]	678.6	678.6	-	39.2	0.1	0.1	-	-	-	-

Remarks after Note 34D.

Note 34 - Interested Parties and Related Parties [1] of the Bank and its Consolidated Companies (cont.)

Reported amounts in millions of NIS

B - Summary business results of interested parties and related parties

	December 31, 2016				December 31, 2015 [13]			
	Interested parties				Interested parties			
	Shareholders				Shareholders			
	Controlling shareholders [2]	Others [3]	Corporate officers [4]	Others [5][6]	Controlling shareholders [2]	Others [3]	Corporate officers [4]	Others [5][6]
Interest income, net	(0.1)	-	0.1	- [12]	(0.1)	-	-	-
Expenses with respect to credit losses	-	-	-	-	-	-	-	-
Non-interest income	0.1	-	-	- [12]	0.2	-	-	0.6
Operating and other expenses	-	-	-	0.8	-	-	-	(0.6)
Total	-	-	0.1	(0.8)	0.1	-	-	1.2

C - Remuneration and any other benefit to interested parties

	December 31, 2016							
	Interested parties							
	Shareholders							
	Controlling shareholders [2]		Others [3]		Corporate officers [4]		Others [5][6]	
	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients
Interested party who is employed in the corporation or on its behalf	-	-	-	-	12.4	12	-	-
Director who is not employed in the corporation or on its behalf	0.3	2	-	-	1.5	9	-	-
	December 31, 2015							
Interested party who is employed in the corporation or on its behalf	-	-	-	-	12.6	13	-	-
Director who is not employed in the corporation or on its behalf	0.3	2	-	-	1.5	9	-	-

Remarks after Note 34D.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

Reported amounts in millions of NIS

D - Interest income, net, in transactions with the banking corporation and its consolidated companies with interested parties and related parties

	2016	2015
A. With respect to assets		
From credit to the public	**0.1**	**-**
B. With respect to liabilities		
On public deposits	**(0.1)**	**(0.1)**
Total interest income, net	**-**	**(0.1)**

(1) Interested party, related party, related person - as defined in section 80.D of the public reporting regulations.
(2) Controlling shareholders and their relatives - as defined in section 80.D(1) of the public reporting regulations.
(3) Other holders - including holders of 5% or more of the means of control of the banking corporation, and those who are entitled to appoint one or more directors of the banking corporation, or its CEO - in accordance with section 80. D(2) of the public reporting regulations.
(4) Corporate officers - as defined in section 80.D(3) of the public reporting regulations.
(5) In accordance with section 80.D(4) of the public reporting regulations
(6) Of which: Total assets as of the balance sheet date in the amount of NIS 0 million, and total liabilities as of the balance sheet date in the amount of NIS 0.3 million, with respect to corporations, where the person or corporation which was included in one of the aforementioned groups of interested parties, in accordance with the Securities Law, holds twenty five percent or more of their issued share capital, or of the voting rights therein, or who is entitled to appoint twenty five percent or more of their directors.
(7) In accordance with section 80.D(8) of the public reporting regulations
(8) Balance as of the balance sheet date.
(9) Highest balance during the year - based on end of month balances at the end of each month.
(10) In accordance with the circular issued by the Banking Supervision Department, on the subject of "disclosure regarding interested parties and related parties", dated June 10, 2015, banking corporations will adopt the amendments to the public reporting regulations in accordance with the circular beginning on January 1, 2015. Accordingly, the Bank does not present comparative figures which preceded the date of application.
(11) These amounts were held by a member company of the controlling shareholder in trust, on behalf of unrelated third parties.
(12) Balance of less than NIS 0.1 million.
(13) Reclassified.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

E - Employment terms of the CEO

On November 1, 2015, Mr. Gil Topaz began serving as the Bank's CEO (hereinafter: the "CEO" or the "Bank's CEO").

The terms of employment and tenure of the Bank's CEO were approved in the general shareholders' meeting of the Bank on August 20, 2015, after the Board of Directors' approval was received, in its meeting on July 14, 2015, as well as the approval of the Remuneration Committee, in its meeting on July 8, 2015 (hereinafter: the "Employment Terms"). The employment terms of the CEO were determined in accordance with the Bank's remuneration policy for corporate officers for the years 2014-2016, which was approved by the general meeting on July 20, 2014, and updated on August 20, 2015 (hereinafter: the "Remuneration Policy for the Years 2014-2016").

On December 21, 2016, the general meeting of the Bank's shareholders approved an update to the terms of tenure and employment of the Bank's CEO, after the Board of Directors' approval was received on October 27, 2016, and the approval of the Remuneration Committee in its meeting on October 27, 2016 (hereinafter: the "Amendment To The Employment Terms Of The Bank's CEO"); in accordance with the provisions of The Remuneration for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Remuneration), 5776-2016 (hereinafter: the "Remuneration for Corporate Officers in Financial Corporations Law"), and the new remuneration policy for corporate officers for the years 2017-2019, which was also approved in the aforementioned general meeting (hereinafter: "New Remuneration Policy"). For details regarding the new remuneration policy, see Note 23.

In accordance with the decision of the meeting, as stated above, the amendment refers to the maximum variable annual bonus, which will enter into effect on October 12, 2016, subject to the transitional provisions which were determined in the new remuneration policy for corporate officers, while with respect to those terms which were amended in accordance with the new remuneration policy, those will enter into effect beginning on January 1, 2017. It is hereby clarified that until the amendment to the employment terms of the CEO enters into effect, the previous terms of tenure and employment will continue to apply.

Presented below are details regarding the CEO's employment terms:

General

The CEO's employment period will be four years, beginning at the start of his tenure in the Bank. The parties will be entitled to terminate the work relationship at any time, subject to notice in writing, provided 6 months in advance.

During 6 months after the date of the termination of the employer - employee relationship, the CEO will be subject to provisions regarding non-competition, as specified in the terms of the transaction, and in consideration of an adjustment bonus. The Bank is entitled, in its exclusive discretion, to extend the non-competition period by an additional 3 months, against payment in the amount of his salary for this period.

Fixed remuneration

The CEO's monthly salary in 2015 and 2016 amounted to a gross total of NIS 97,750; Beginning with the salary for January 2017, his salary will amount to a gross total of NIS 103,500, for a full time position;

beginning with the salary for January 2018, his salary will amount to a gross total of NIS 115,000, for a full time position; and beginning with the salary for January 2019, his salary will amount to a gross total of NIS 120,000, for a full time position (hereinafter: "Monthly Salary"). The monthly salary will be linked to increases in the consumer price index, as specified in the employment terms. The CEO will also be entitled to social benefits and fringe benefits, as specified in the employment terms.

Variable remuneration

- In accordance with the amendment to the employment terms of the Bank's CEO, the CEO will be entitled to a variable annual bonus in accordance with and subject to the new remuneration policy and the directives of the Commissioner of Banks.
- Subject to the foregoing, the variable annual bonus limit (minimum, maximum), respectively, to which the CEO will be entitled with respect to a certain calendar year, will be between NIS 300,000 and NIS 700,000, subject to the restrictions and rules prescribed in the Law Regarding Remuneration for Corporate Officers in Financial Corporations, and as specified below:
  - New minimum conditions were defined for the payment of a variable annual bonus, as specified in the new remuneration policy.
  - The calculation of "rate of return" was changed, in a manner whereby the calculation of "rate of return" will be according to comprehensive income as reported the Bank's audited annual financial statements, relative to average equity. In the calculation of the rate of return, profits / losses which are due to non-recurring events will be neutralized (financial profits / losses, such as nostro, will not be considered non-recurring), as well as capital profits / losses, in the discretion of the Board of Directors.
  - Subject to the fulfillment of the minimum conditions, a list of criteria was established which, upon fulfillment, will entitle the Remuneration Committee and the board of directors to grant up to 3 monthly salaries subject to discretion, and additionally , the Remuneration Committee and the Board of Directors will be entitled to approve an additional variable annual bonus, beyond these 3 salaries, according to measurable parameters which will be determined proximate to the commencement of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee, up to the Remuneration Committee limit, as specified in the remuneration policy, and subject to The Remuneration for Corporate Officers in Financial Corporations Law.
- Without derogating from the foregoing, in the event that it is found that there are components of remuneration, as defined and in accordance with the terms of The Remuneration for Corporate Officers in Financial Corporations Law, which are not included in the remuneration limit set forth in section 2(A) of The Remuneration for Corporate Officers in Financial Corporations Law, the variable annual remuneration to which the CEO will be entitled may be updated, as specified above, in order to include all and/or some of those components. Insofar as the update is immaterial, as specified in section 12.2 of the new remuneration policy, it will require the approval of the Remuneration Committee and the Board of Directors, and insofar as the update is material, the update will also require the approval of the general meeting. Additionally, the remuneration, in the foregoing case, will also be subject to the following conditions: (1) The total remuneration, as stated in The Remuneration for Corporate Officers

in Financial Corporations Law, for the CEO, after the update, not exceed two and a half million New Israeli Shekels per year, CPI-linked, as specified in The Remuneration for Corporate Officers in Financial Corporations Law; and - (2) The total remuneration to the CEO will not exceed the remuneration to which the CEO was entitled according to his employment agreement prior to the amendment, on all matters associated with variable remuneration.

- The CEO's entitlement to the variable bonus with respect to 2016 will not be calculated on a calendar basis, but rather on a proportionate basis, where with respect to the first three quarters of 2016, the variable remuneration will be in accordance with the provisions of the remuneration policy for the years 2014-2016, and the variable bonus limit in accordance with the CEO's employment terms, which were approved by the Bank's general meeting on August 20, 2015, whereas with respect to the last quarter of 2016, the variable remuneration limit will be in accordance with the provisions of the new remuneration policy.
- The maximum variable remuneration will not exceed 100% of the fixed remuneration (as defined in the new remuneration policy) for the Bank's CEO.
- Any variable remuneration will be granted and will be paid subject to the condition that it is repayable, according to the conditions which are defined in the new remuneration policy.
- Conditions for distribution of variable remuneration - in light of the amendment to the new remuneration policy - a change has been made to this section, relative to the previous terms of tenure and employment. The CEO's variable annual bonus with respect to a calendar year will be paid according to the dates and conditions which are specified in the new remuneration policy.
- With respect to all types of variable remuneration, fringe benefits are not paid. In circumstances where the Bank's CEO is not entitled to receive severance pay, and in other circumstances, as will be determined (if determined) by the Board of Directors from time to time, after receiving the recommendation of the Remuneration Committee, the Bank will be entitled to revoke the CEO's entitlement to variable remuneration (in whole or in part), including the bonuses, and to all parts of the variable remuneration which have not yet been paid, including with respect to the deferred parts of the variable remuneration.

Retirement terms

- Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the CEO or to his survivors, as applicable, and will exhaust all of the Bank's liabilities in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the termination of employment of the banks CEO, the Bank will release, in favor of the Bank's CEO, all of the funds which accumulated in his favor in the pension plan, including the interest accrued thereupon, and the Bank will not be entitled to receive any sum out of the plan funds.
- Advance notice - The advance notice period in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 6 months, in writing. The Bank will be entitled to forgo the work of the Bank's CEO during the advance notice period, in whole or in part. In that case, the Bank's CEO will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be

entitled to terminate the working relationship immediately, or during the advance notice period, provided that it will pay to the Bank's CEO the advance notice consideration which remains in his favor, in the amount of the monthly salary and the value of the fringe benefits and social benefits specified in the agreement, excluding the variable remuneration. In the event that the Bank's CEO has breached his obligation to submit advance notice to the Bank regarding his resignation, he will be required to pay liquidated damages to the Bank, in the amount of the total salary which he would have been entitled to receive, had he continued working.

- Adjustment bonus - upon the conclusion of the CEO's employment, an adjustment bonus will be paid to the CEO in an amount equal to 3 monthly salaries, according to the fixed salary, as stated above, which was paid to him upon the conclusion of his employment in the Bank.
- The adjustment bonus constitutes consideration for the 6 month non-competition undertaking.

Variable retirement arrangements - in light of the amendment to the new remuneration policy - a change was made to this section, relative to the previous terms of tenure and employment, which will be paid according to the dates and conditions specified in the new remuneration policy.

Additional general provisions

All of the provisions of the agreement with the CEO will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time, and to The Remuneration of Corporate Officers in Financial Corporations Law, and will be amended as required accordingly.

The Board of Directors will be entitled, for special reasons, to decide to reduce the variable remuneration (in whole or in part) given to the Bank's CEO, after receiving the recommendation of the Remuneration Committee.

If it is found that amounts have been paid to the Bank's CEO as part of his terms of tenure and employment, which were based on figures which were found to be erroneous, and which were restated in the Bank's financial statements, and where, in light of the restatement of those figures, lower amounts should have been paid to the Bank's CEO than those which he actually reviewed, or if no amounts at all should have been paid, then the Bank's CEO will repay those amounts to the Bank, upon the Bank's demand, plus linkage differentials from the payment date until the repayment date.

F. Employment terms of the Bank's former CEO (concluded his tenure as the Bank's CEO on October 31, 2015)

Mr. Uri Paz discontinued serving as the Bank's CEO on October 31, 2015, after the passage of six months following his announcement regarding his intention to terminate his position (hereinafter: the "Former CEO").

The former CEO's employment terms were approved by the Bank's Board of Directors on August 14, 2014, in accordance with section 272(c)(3) of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"), for a period of three years beginning on the date of the extension of his tenure on April 14, 2014, whereby the parties were entitled to terminate the working relationship at any time by providing written notice six (6) months in advance; This was after the Board of Directors resolved that the conditions for their approval had not been fulfilled, although they were not approved by the Bank's general meeting from July 20, 2014, due to the absence of the required majority among shareholders who are not the Bank's controlling shareholders or interested parties in the approval of the resolution.

Following the notice sent by the Banking Supervision Department, the Board of Directors, in its meeting on February 25, 2015, held a renewed discussion in connection with its aforementioned resolution dated August 14, 2014, and again decided that, in this case, the conditions set forth in the Companies Law for the approval of the aforementioned terms of tenure and employment had been fulfilled, based on detailed reasons, and after having evaluated, inter alia, the resolution of the general meeting, which re-approved the former CEO's terms of tenure and employment.

The following are the principal terms of the former CEO's employment agreement (hereinafter: the "Employment Agreement"):

Fixed salary

The former CEO's monthly salary was specified in the agreement as a gross total of NIS 139,000 per month (hereinafter: the "Monthly Salary"), in a full time position, linked to increases in the consumer price index gross per month 15, 2014, with respect to February 2014. In each calendar year during his period of employment, the former CEO was entitled to a fixed annual bonus in the amount of one monthly salary, and to a proportional part with respect to work during part of the year. The fixed annual payment will not be considered as part of the monthly salary for the purpose of social provisions, including severance pay. He was also entitled to social benefits and fringe benefits. The aforementioned terms were provided to the former CEO until the date of termination of his tenure, on October 31, 2015.

Variable annual bonus

In accordance with the employment agreement, the former CEO was entitled to an annual bonus, subject to the following cumulative preconditions: A. Fulfillment of a minimum reported rate of return, to be determined by the Board of Directors after receiving the recommendation of the Remuneration Committee regarding each bonus year, at a rate of 8% - 8.5%. B. Fulfillment of the Bank's capital adequacy ratios, as required in accordance with the directives issued by the Commissioner of Banks in the bonus year (for details regarding the definition of reported returns, see Note 15 regarding the remuneration policy for the Bank's corporate officers). In 2015, the precondition requiring fulfillment of a minimum rate of reported returns was not fulfilled, and therefore, the former CEO was not entitled to a variable annual bonus with respect to the relative period during which he was employed in 2015.

The payment of variable remuneration will be distributed throughout several years. The execution of each of the postponed payments will be contingent upon the fulfillment of minimum reported returns. In the event that, in a certain year for which the former CEO is entitled to a deferred payment, the reported returns are lower than the limit and/or the Bank has not fulfilled the capital adequacy ratio required in accordance with directives issued by the Commissioner of Banks, the Bank's former CEO will not be entitled to receive payment of the deferred remuneration with respect to that year, and that payment will be canceled.

In the years 2016 and 2015, the reported returns were lower than the determined limit, and therefore, the deferred remuneration with respect to 2014, which was supposed to have been paid in each of those years, in the amount of NIS 126 thousand, was canceled.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

Payments upon termination of employment

In accordance with the employment agreement, the former CEO is entitled, upon the termination of his employment, to receive severance pay. The Bank's payments to the pension plan with respect to severance pay comes in place of the payment of severance pay, and exhaust the Bank's obligations on all matters associated with the payment of severance pay, as specified in section 14 of the Severance Pay Law, and upon the termination of the employment of the former CEO, the banks will release, in favor of the former CEO, all funds which accrued in his favor in the pension plan, including interest thereupon; And an adjustment bonus in the amount of six monthly salaries (for this purpose, this refers to his monthly salary). The adjustment bonus constitutes consideration for the 6 month non-competition undertaking. Part of the bonus was paid immediately, while another part was distributed in accordance with the terms and conditions specified on this matter in Proper Banking Management Directive 301A, and in directives issued by the Commissioner of Banks.

Options plan

Option units were allocated to a company wholly owned and controlled by the Bank's former CEO, through which the Bank's former CEO gave services to the Bank until April 13, 2014, in accordance with the options plan which was approved by the Bank's Board of Directors on February 27, 2011 (hereinafter: the "Options Plan") (for additional details regarding the options plan, see Note 24 to the financial statements). In case of termination of the employer - employee relationship between the Bank and the former CEO, the options which vested will be exercisable within 180 days after the date of termination of the employer - employee relationship, after which they will expire. The aforementioned options were not exercised, and therefore expired on April 30, 2016.

G - Employment Terms of the Chairman of the Board

The Bank's Board of Directors, in its meeting on September 17, 2015, decided to appoint Mr. Zeev Nahari as a director and as the Chairman of the Bank's Board of Directors ("Chairman of the Board" or "Mr. Nahari"), in accordance with section 11c.(a)(3) of the Banking Ordinance, 1941, and the Bank's bylaws, until the date when the appointment will be presented for approval to the special general meeting which will be convened for this purpose, and subject to the receipt of the required approvals.

On October 11, 2015, approval was received from the Bank of Israel, certifying that it does not have an objection to the appointment of Mr. Nahari as a director and as the Chairman of the Bank's Board of Directors, and from that date onwards, Mr. Nahari has effectively served as a director and as the Chairman of the Bank's Board of Directors. On November 19, 2015, the general meeting approved Mr. Nahari as a director in the Bank.

The Remuneration Committee and the Board of Directors, in their meetings which were held in September and October 2015, approved the terms of tenure and employment of the Chairman of the Board, Mr. Zeev Nahari (hereinafter: the "Employment Terms"). The employment terms of the Chairman of the Board were approved in the general meeting which was convened on November 19, 2015.

The employment terms were determined in accordance with the Bank's remuneration policy for corporate officers, which was approved by the general meeting on July 20, 2014, as updated on August 20, 2015 (hereinafter: the "Remuneration Policy").

Note 34 - Interested Parties and Related Parties(1) of the Bank and its Consolidated Companies (cont.)

Presented below are details regarding the principal employment terms of the Chairman of the Board:

General

The Chairman's period of employment will be 4 years, commencing with his actual tenure.

Notwithstanding the provisions of the above section, the parties will be entitled to terminate the work relationship at any time, by providing written notice three (3) months in advance.

During the employment period, the Chairman will be employed on a 4 day work week basis (no less than 80% position).

The Chairman of the Board undertakes not to engage in any other activity and/or in any other position and/or in nay other engagement and/or work, at or on behalf of any banking corporation or financial entity or entity active in the capital market, and/or in any other engagement which is prohibited in accordance with the Proper Banking Management Directives, unless advance written consent has been received for the foregoing from the Bank's Board of Directors. The Chairman of the Board undertook to avoid conflicts of interest.

Monthly salary and fringe benefits

The Chairman of the Board's monthly salary will amount to a gross total of NIS 95,000 per month of work (with respect to a 80% position). The salary will be linked to increases in the consumer price index, with the base index being the index on the commencement date of his position. Additionally, the Chairman of the Board will be entitled to receive social benefits and fringe benefits which include, inter alia, social provisions; sick days, convalescence pay, a vehicle appropriate for his position, corporate officer's insurance according to the Bank's policy, insofar as there will be a transfer of control in the Bank, run-off insurance according to the Bank's conventional practice, undertaking to indemnify according to the customary terms for senior corporate officers in the Bank, reimbursement of expenses associated with the fulfillment of his position, and additional benefits.

Variable remuneration

In accordance with the terms of tenure and employment, and in accordance with Proper Banking Management Directive 301A, the Chairman of the Board will not be entitled to receive a variable annual bonus.

Retirement terms

Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the Chairman of the Board or to his survivors, as applicable, and will exhaust all of the Bank's obligations in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the conclusion of the employment of the Chairman of the Board, the Bank will release, in favor of the Chairman of the Board, all funds which have accrued in his favor in the pension plan, including interest accrued thereupon, and the Bank will not be entitled to receive any amount out of the plan funds.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

Advance notice - The advance notice period in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 3 months, in writing. The Bank will be entitled to forgo the work of the Chairman of the Board during the advance notice period, in whole or in part. In the above case, the Chairman of the Board will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be entitled to terminate the working relationship immediately, or during the advance notice period, provided that it pays to the Chairman of the Board the consideration for the remaining advance notice period which remains in his favor, in the amount of the monthly salary and the value of the fringe and social benefits specified in the agreement.

Additional general provisions

The provisions of the agreement with Chairman of the Board will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

G. Employment terms of the former Chairman of the Board (whose tenure as the Chairman of the Bank's Board of Directors concluded on September 10, 2015)

On September 9, 2015, Mr. Zeev Gutman, the former Chairman of the Bank's Board of Directors (the "Former Chairman of the Board"), announced that he was removing his candidacy as a director for an additional tenure period, and requested not to be re-appointed as a director in the annual general meeting which was scheduled for September 10, 2015; The employment terms of the former Chairman of the Board were approved by the general meeting on October 3, 2011, after approval was received from the Audit Committee, in its meeting on June 20, 2011, and later from the Board of Directors, in its meeting on July 17, 2011.

The following are the primary components of the engagement terms with the former Chairman of the Board, Mr. Zeev Gutman, through a company wholly owned and controlled by him (hereinafter: the "Services Agreement"):

The services were provided to the Bank by the former Chairman of the Board within the framework of an engagement between an orderer and an independent contractor, through a company under the control of the former Chairman (hereinafter: the "Company"). The consideration with respect to these services to the Bank was established based on the aforementioned framework, and there was no employer - employee relationship between the Bank and the former Chairman.

The services agreement terminated on September 10, 2015, following the announcement of the former Chairman of the Board dated September 9, 2015, according to which he is removing his candidacy as a director for an additional tenure period, and requesting not to be re-appointed as a director in the annual general meeting which was scheduled for September 10, 2015.

Fixed consideration

The consideration with respect to the services was determined as a monthly total of NIS 108,340, plus duly calculated value added tax (hereinafter: the "Monthly Consideration"). Linked to increases in the consumer price index which was published on October 14, 2011, with respect to September 2011. In accordance with the provisions of the services agreement, the monthly consideration with respect to 2015 amounted to a total of NIS 123,683, plus duly calculated VAT (an increase of 10% relative to the previous year, due to the fact that, according to the terms of the agreement wit him, the Bank's net profit for a given year exceeded NIS 61 million, and he will be entitled to this addition).

The Bank will also bear, in accordance with the services agreement, all current expenses associated with the provision of the services, against the provision of receipts (if these are not owed directly to the Bank), including the provision of a vehicle and telephone.

Variable bonus

In accordance with the provisions of the services agreement, the company is entitled to a variable bonus upon the fulfillment of the conditions specified in the agreement; In 2015, the preconditions for the fulfillment of the minimum reported rate of return of 9%, which confer entitlement for the bonus, were not met, and therefore, the company is not entitled to a proportional annual bonus with respect to the period during which the agreement was in effect in 2015.

Note 34 - Interested Parties and Related Parties[1] of the Bank and its Consolidated Companies (cont.)

Payments upon termination of the agreement

In accordance with the services agreement, the former Chairman of the Board is entitled to an advance notice period of three months, and therefore, the monthly consideration was paid to the company, as well as the additional terms, for an additional period of three months, until December 10, 2015.

Note 35 - Various Issues

1. On January 22, 2016, the Bank announced that a hacking breach of a securities information website which is separate from the Bank's central website had been discovered. A report regarding the event was sent to the Banking Supervision Department.

   The website which was hacked, which only contained information regarding the securities segment (with no option to perform transactions), was taken off the internet at the Bank's initiative.

   Based on evaluations which were conducted and are being conducted by the Bank, in consultation with experts, and in coordination with national entities which are responsible for cyber enforcement in Israel, it appears that the activity was performed by hostile anti-Israel activists belonging to the hacker organization "Anonymous". The action was performed outside of state borders.

   Based on an evaluation of the information which was collected since the discovery of the event, it appears that no unauthorized actions were performed with respect to customers' accounts, and that no damage was caused to customers.

   Upon the discovery of the event, the Bank implemented, and continues to implement, actions to protect customer accounts, and performed immediate actions, including the resetting of access passwords to those accounts.

   The Bank estimates that the breach involved approximately 38,000 records, of which approximately 6,000 are active accounts of the Bank in the securities segment. The others are historical customers of the stock exchange member company, who received information through that separate website.

   Notice was given to the Bank's insurers.

2. On February 11, 2016, due to the significant changes in regulatory requirements in connection with the capital adequacy ratio, and after the receipt of approval from the Banking Supervision Department, the Bank sold bonds which had been classified as bonds held to maturity. This sale was performed following a preliminary discussion which the Bank held vis-à-vis the Banking Supervision Department, which concluded with the Bank accepting the demand from the Banking Supervision Department, which determined that this sale must be done subject to a restatement of the financial statements as of December 31, 2014, and for the year then ended, in order to retrospectively reflect the correction of an error in the classification of the bonds from the held to maturity portfolio to the available for sale portfolio, on the acquisition date. As a result of this sale, the Bank recorded profit after tax in the amount of approximately NIS 21 million in the first quarter of 2016. For details regarding the impact of the restatement on the financial statements for 2014, see Note 1.F.

3. On August 11, 2016, the Bank's Board of Directors approved an extension of the memorandum of understanding with JCF Foundation to January 11, 2017, with respect to the Dexia transaction, as specified in Note 35.1 to the report for 2015. It is hereby clarified that the aforementioned decision does not constitute any decision, or the expression of any position, by the Board of Directors, nor any restriction with respect to the performance of the transaction, or with respect to the profitability of the Dexia acquisition transaction, or the terms which may be offered by the Bank for a transaction of this kind, if any.

Note 36 - Data Based on Nominal Historical Figures for Tax Purposes

	As of December 31	
	2016	2015
	NIS millions	
Total assets	**14,441.0**	14,464.4
Total liabilities	**13,632.9**	13,680.7
Equity	**808.1**	783.7

	For the year ended December 31		
	2016	2015	2014
Net profit	**55.7**	48.7	65.1 [(1), (2)]

Corporate Governance, Audit and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

Report for 2016

Bank of Jerusalem Ltd. and its Consolidated Companies

Corporate Governance, Auditing and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof - Table of Contents

Part A - Corporate Governance and Audit

Board of Directors and management

Names and positions of Board members:

Name of director	Main position
Zeev Nahari, CPA (2)	Chairman of the Bank's Board of Directors.
Zalman Shoval (2)	Chairman of the Board of Directors of Export Investment Co. Ltd. (the parent company); Joint Chairman of the Faire Fund.
Yehuda Orbach, CPA (3)	Chairman and member of various committees; lecturer.
Dr. Ruth Arad (3, 4)	Director in companies
Shmuel Eshel (3)	Consulting and business accompaniment
Moshe Bauer (2)	CEO and Director of C.F.C. Comprehensive Financing Co. Ltd.
Lior Ben Ami (2, 4)	Partner CEO of Spike IT Information Technology Ltd.
Ram Harmelech (2)	CEO and owner of Manof Marang Ltd. and director in companies.
Ira Sobel, CPA (5)	Economic advisor to companies and director in companies.
Dr. Nurit Krauss (5)	CEO and founder of Redstart Modeling Services and Consulting Ltd.
Gideon Shoval (2)	CEO of Export Investment Co. Ltd.

(1) Additional details regarding the Bank's Board members, including their tenure commencement date, their membership in Board of Directors committees, service on additional boards of directors, whether they are employees of the Bank, its subsidiary, its related company or of an interested party, or any family member of another interested party, are presented in the Bank's periodic report for 2016.

(2) In the Bank's annual general meeting of shareholders which was held on December 20, 2016, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. (Chairman of the Board), Zalman Shoval, Gideon Shoval, Moshe Bauer, Ram Harmelech and Lior Ben Ami.

(3) Outside director in accordance with the Companies Law, 5759-1999.

(4) Tenure commenced on April 10, 2016.

(5) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.

Report regarding directors with accounting and financial expertise

In accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the "Companies Law") and the Companies Regulations (Conditions and Tests for Director with Accounting and Financial Expertise and for Director with Professional Qualifications), 5765-2005, at least two directors must have accounting and financial expertise, as this term is defined in the aforementioned Companies Law (hereinafter: "Directors with Accounting and Financial Expertise") and at least two of the outside directors must have accounting and financial expertise;

In accordance with Proper Banking Management Directive 301, at least one fifth of all Board members must have accounting expertise;

In accordance with the decision a resolution of the Bank's Board of Directors (as set forth in the Board's work policy), the minimum number of directors with accounting and financial expertise will be the number set forth in Proper Banking Management Directive 301, and in the Companies Law, i.e.: (a) At least one fifth of all Board members must have accounting and financial expertise, provided that at least two Board members have accounting and financial expertise, and at least two outside directors have accounting and financial expertise; (b) At least two members of the Audit Committee, which also serves as the financial statements review committee, must have accounting and financial expertise, This is for the reasons specified below:

(a) In the assessment of the Board of Directors, the aforementioned minimum number must allow the Board of Directors and the Audit Committee to fulfill the obligations applicable to them, in accordance with the provisions of the law and the incorporation documents, and in particular, their obligation to evaluate the Bank's financial position and to prepare the financial statements;

(b) The aforementioned minimum number must take into account the size of the Bank, the complexity of its operations, and the range of risks associated therewith.

As of the reporting date, all members of the Bank's Board of Directors, and all members of the Audit Committee (which serves as the financial statements review committee), have accounting and financial expertise, in accordance with their education, qualifications and experience, as specified below:

Name	Education, qualifications and experience:
Zeev Nahari	Education: C.P.A., University of Haifa. Qualifications and experience: • Current position - Chairman of the Bank's Board of Directors; • Fulfilled various roles in Bank Leumi Le-Israel Ltd. (during the years 1965-2011); In his last position, served as an executive member of management for funds, accounting and the capital market. • Also served as Chairman of the Board of Arab Israeli Bank Ltd., and as Chairman or director in companies from the Bank Leumi Le-Israel Group, as specified in the Bank's periodic report for 2016; Also served as a director in Bank Leumi USA, Bank Leumi le-Israel Corporation and Israel Corporation Ltd. • Served as an advisor to the Electric Corporation until December 31, 2016.
Zalman Shoval	Education: B.A. in International Relations from UC Berkeley, California; M.A. in Internal Relations, Economics and Political Science from University of Geneva; Ph.D. in International Relations and Political Science from Pacific University. Qualifications and experience: • Current position - Chairman of the Board of Directors of Export Investment Co. Ltd. and Joint Chairman of the Faire Foundation; Chairman or Director on the boards specified in the Bank's periodic report for 2016. • Formerly served as the CEO of Export Bank and as Israel's Ambassador to the United States, Chairman of Bank of Jerusalem, member of the Knesset Finance Committee, member of the Knesset Foreign Affairs and Defense Committee, and member of the Board of Directors of Hadassah (Israel).
Yehuda Orbach	Education: C.P.A., B.A. in Accounting and Economics, The Hebrew University of Jerusalem; Qualifications and experience: • Current position - Chairman of the Audit Committee of the Holocaust Restitution Company of Israel and of the Association of Friends of Tel Aviv University; Lecturer on auditing of information systems in institutions of higher education; Member of the IT committee of the Institute of Certified Public Accountants in Israel. Advisor and auditor; Reviewer in the Peer Review Institution. • Served as VP and chief internal auditor in Union Bank of Israel Ltd. and its subsidiaries from 2000 to 2014.
Dr. Ruth Arad	Education: B.A. in Mathematics, Tel Aviv University; M.S. in Statistics, Princeton University, New Jersey; Ph.D. in Finance and Statistics (specialization in Finance), Princeton University, New Jersey. Qualifications and experience: • Current position - director; CEO and owner of Fentchell Ltd. • Formerly served as Chief Risk Controller of Bank Leumi le-Israel (during the years 1999-2011); outside director at Isracard (and Chairman of the Risk Management Committee and member of the Audit Committee) (in the years 2011-2014); lecturer at the University of Haifa (in 2013); Member of the Credit Committee of the Solo Foundation (in the years 2014 - 2016).

Name	Education, qualifications and experience:
Shmuel Eshel	Education: B.A. in Political Science and Labor Studies, Tel Aviv University. Qualifications and experience: • Current position - consulting and business accompaniment. Director on the boards of corporations specified in the Bank's periodic report for 2016. • Served as VP of Union Bank in the mortgage segment (2004-2009); Member of management in Union Bank, VP, Business Division Manager in Union Bank (1998-2004); Additional positions in Union Bank, beginning in 1977. Until June 2009, served as a director in Livluv Insurance Agency and in Carmel - Mortgage and Investment Union Ltd. Also served as Chairman of Leasing Union Ltd., and as a director in Plenus Lending Fund (1998 - 2004).
Moshe Bauer	Education: high school. Qualifications and experience: • Current position - CEO and Director of C.F.C. Comprehensive Finance Ltd., Deputy Chairman of the Board of Export Investment Co. Ltd., and director in the corporations specified in the Bank's periodic report for 2016. • Formerly served as Foreign Currency Department Manager in Ellern Bank, as the Bank's secretary, and subsequently as the Bank's export secretary.
Lior Ben Ami	Education: B.A. in Economics and Political Science, The Hebrew University; M.A. in Business Economics, Bar Ilan University. Qualifications and experience: • Current position - Partner CEO of Spike IT Information Technology Ltd. • Formerly served as Partner CEO of Help PC The Center for Home Computing Support (in the years 2006-2013); Manager of the Communication Products Division at Siemens Israel (in the years 2003-2005); Business Development and Strategy Manager at Paz Oil Ltd. (in the years 1997-2003) Executive VP in the Israel Ports and Railway Authority (in the years 1996-1997); Company analyst in the consulting unit of the capital markets and finance field; Economist in the planning and business control department at First International Bank of Israel (in the years 1993-1996); Assistant to the Chief Economist in the research department of the monetary division at the Bank of Israel (in the years 1992-1993).
Ram Harmelech	Education: B.A. in Statistics and Geography from Tel Aviv University; M.B.A. from Tel Aviv University. Qualifications and experience: • Current position - CEO of Manof Marang Ltd. and director in companies, as specified in the Bank's periodic report for 2016. • Served as Executive VP, Business Division Manager and Credit Risk Manager in Mercantile Discount Bank (from 1998 to 2012); Served as the CEO of Maalot The Israeli Securities Rating Co. Ltd. (in the years 1994-1998).
Ira Sobel	Education: C.P.A., B.A. in Business Management / Accounting, The College of Management Academic Studies, Rishon Letzion; Executive M.B.A, Tel Aviv University and Northwestern University, Chicago, USA; M.A. in Gender Studies, Tel Aviv University. Qualifications and experience: • Current position: C.P.A., economic advisor to companies. Studies towards a Ph.D. in the Department of Sociology and Anthropology at Tel Aviv University; Member of the managing committee of the association Open Door. • Served as Senior Audit Manager in the Banking Segment of KMPG Somekh Chaikin, and as assistant to the firm's CEO (1994-2002). Served as a director on the boards of corporations specified in the Bank's periodic report for 2016.
Dr. Nurit Krauss	Education: B.Sc. in Aerospace Engineering, Haifa Technion; M.Sc. in Physics, Haifa Technion; D.Sc. in Physics, Haifa Technion. Qualifications and experience: • Current position - Manager and Founder of Redstart Modeling Services and Consulting Ltd., a company specializing in the provision of consulting activities regarding model development for Japanese and American stocks only. • Formerly served as head of the model validation department and head of the comprehensive risk department at Bank Leumi (2006 to 2011). Algorithmic Trading Manager at Schonfeld Securities in the United States (2000 to 2006).
Gideon Shoval	Education: L.L.B. in Law, Buckingham University; L.L.M. in Law, Columbia University; M.B.A., IMD Business Administration School. • Current position - CEO and Director of Export Investment Co. Ltd.

Board of Directors

During 2016 and until the publication date of the report, the following changes took place in the composition of the Board of Directors:

Mr. Ovad Ben Ozer OBM passed away on January 1, 2016.

On April 7, 2016, in a special general meeting of the Bank's shareholders, a decision was reached to appoint Dr. Ruth Arad as an outside director in the Bank, in accordance with bank, for a tenure period of three years. It was also decided to appoint Lior Ben Ami as a director in the Bank. The tenure of Dr. Arad and Mr. Ben Ami commenced on April 10, 2016.

As of the publication date of the report, the Bank's Board of Directors includes eleven directors, three of whom are outside directors as defined in the Companies Law, who are also outside directors in accordance with Proper Banking Management Directive 301, as well as two independent directors, as defined in the Companies Law, who are also outside directors in accordance with Proper Banking Management Directive 301.

It is noted that on October 14, 2010, the Commissioner of Banks contacted the Bank's Board of Directors, within the framework of an evaluation of the functioning and structure of the Bank's Board of Directors, in order to determine rules regarding the composition of the Board of Directors and the ratio between outside directors and other directors. In 2016, the composition of the Bank's Board of Directors fulfilled the required ratio between outside directors and other directors, in accordance with the terms which were agreed upon with the Banking Supervision Department (at least five outside directors out of twelve or thirteen directors).

During 2016 and until the publication date of the report, changes took place in the compositions of Board of Directors committees, as follows:

On March 22, 2016, the Board of Directors resolved to establish a new Board of Directors resource regarding resources; the Board of Directors further resolved to cancel the Board of Directors' Credit Committee, and its authorities were transferred to the Risk Management Committee.

It was also resolved, on the aforementioned date, to establish and update the compositions of the Board of Directors' committees, as follows:

Resources Committee (new committee) - Messrs. Yehuda Orbach - Chairman, members: Nurit Krauss, Ira Sobel, Lior Ben Ami (effective from his tenure commencement date).

Risk Management Committee - Mr. Ram Harmelech concluded his tenure as a member of this committee, and Dr. Ruth Arad was appointed as a member of the committee (effective from her tenure commencement date).

Capital Planning and Strategy Committee - Mr. Zeev Nahari was appointed as Committee Chairman.

Remuneration Committee - Dr. Ruth Arad and Mr. Lior Ben Ami were appointed as committee members (effective from their tenure commencement dates).

Audit Committee - Dr. Ruth Arad was appointed as a committee member (effective from her tenure commencement date).

As of the publication date of the report, the Board of Directors' committees operate, according to the following compositions, as follows:

Audit Committee: Messrs. Shmuel Eshel (Chairman) (outside director), Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law), Mr. Ram Harmelech and Dr. Ruth Arad (outside director).

Risk Management Committee: Messrs. Zeev Nahari (Chairman), Yehuda Orbach (outside director), Nurit Krauss (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law), Ms. Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Dr. Ruth Arad (outside director).

Capital Planning and Strategy Committee: Messrs. Zeev Nahari (Chairman), Gideon Shoval, Nurit Kraus (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law), Shmuel Eshel and Ram Harmelech.

Remuneration Committee: Messrs. Yehuda Orbach (Chairman) (outside director), Shmuel Eshel (outside director), Ram Harmelech, Dr. Ruth Arad (outside director) and Lior Ben Ami;

Remuneration Committee, extended composition: (for discussions regarding the remuneration policy and remuneration agreements of all employees (except key employees), in accordance with section 38(e) of Proper Banking Management Directive 301): Messrs. Yehuda Orbach (Chairman) (outside director), Zeev Nahari (Chairman of the Board), Shmuel Eshel (outside director), Ram Harmelech, Dr. Ruth Arad (outside director) and Lior Ben Ami;

Resources Committee: Messrs. Yehuda Orbach (Chairman), Nurit Krauss, Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Lior Ben Ami.

In 2016, 19 meetings of the Board of Directors were held, and 57 meetings of the Board of Directors' committees were held.

Corporate officers

On July 24, 2016, Mr. Israel Boker discontinued serving as Acting CEO and Executive VP, member of management and the Bank's Retail Division Manager.

On July 26, 2016, the Bank's Board of Directors approved the appointment of Mr. David Levy to the position of Vice President, member of management and Retail Division Manager. On September 26, 2016 notice was received in the Bank from the Commissioner of Banks, stating that the Banking Supervision Department does not object to his appointment as the Bank's Retail Division Manager. Mr. Levy began serving in the aforementioned position on November 1, 2016.

On September 29, 2016, the Bank's Board of Directors approved the appointment of Ms. Hagar Peretz Dayan as a corporate officer in the Bank, subordinate to the Bank's CEO, to the position of Manager of the Bank's CEO, Headquarters, Marketing and Strategy Division.

On December 20, 2016, and in light of the announcement of the serving Chief Risk Officer, Mr. Michael Ben Yishai, regarding his intention to retire in 2017, the Bank's Board of Directors approved the appointment of Ms. Dafna Landau to the position of Vice President, member of management and Chief Risk Officer in the Bank, subject to the approval of the Bank of Israel. On February 7, 2017, notice was received from the Commissioner of Banks stating that the Banking Supervision Department does not object to the appointment of Ms. Dafna Landau as the Chief Risk Officer. Further to the Commissioner's aforementioned notice, on March 1, 2017, Mr. Ben Yishai will discontinue serving as the Bank's Chief Risk Officer, and on that date, Ms. Landau will begin serving in that position.

On February 9, 2017, and further to the approval of the Board of Directors for the change to the organizational structure, according to which the compliance and enforcement department will be transferred from the risk division to legal consulting, the Bank's Board of Directors approved the appointment of Ms. Sarit Weisstuch as the Manager of the Legal Consulting, Compliance and Enforcement Department.

Members of bank management as of December 31, 2016: [1]

Gil Topaz	CEO
Michael Tayer	Executive VP, Resource Division Manager
Michael Ben Yishai (2)	VP, Risk Division Manager (CRO)
Sarit Weisstuch, Adv. (3)	VP, Legal Advisor, Manager of the Legal Consulting, Compliance and Enforcement Department.
Alexander Saltzman	VP, Monetary Division Manager
David Levy (4)	VP, Retail Department Manager
Moshe Omer	VP, Financial Department Manager

Corporate officers who are not members of management:	
Ron Sagi	VP, Chief Internal Auditor, holds the status of management member
Carmel Florenz, Adv.	Bank Secretary
Hagar Peretz Dayan (5)	Manager of the Bank's CEO, Headquarters, Marketing and Strategy Division
Ayelet Rusk	Real Estate Sector Department Manager

(1) Additional details regarding the Bank's corporate officers (who are not directors) are presented in the Bank's periodic report for 2016, and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.
(2) Mr. Ben Yishai will discontinue serving as the Chief Risk Officer on March 1, 2017, and from the date onwards, Ms. Dafna Landau will serve as the Chief Risk Officer.
(3) Ms. Sarit Weisstuch was appointed, on February 9, 2017, as the Manager of the Legal Consulting, Compliance and Enforcement Department (previously served as the Legal Department Manager).
(4) Began serving on November 1, 2016.
(5) Began holding office on September 29, 2016.

Internal auditor

Mr. Ron Sagi has served as the internal auditor of the Bank since March 20, 2012. Holds a B.A. in Economics from The Hebrew University. Mr. Ron Sagi has a great deal of experience in the banking industry. From the years 2003 to 2010, he served as VP and manager of the Bank's operations and banking infrastructures division, and from December 2010 until his appointment as the Bank's internal auditor, served as acting and deputy internal auditor.

The internal auditor complies with the conditions set forth in section 3(A) of the Internal Audit Law, with the provisions of section 146(B) of the Companies Law, 5759-1999, and with the provisions of section 8 of the Internal Audit Law, 5752-1992. The internal auditor is not a family member of any other corporate officer or interested party in the Bank, has no significant business relations with the Bank, and does not directly hold any of the Bank's securities. The internal auditor is also responsible for the public complaints handling unit, and does not serve in any other position other than the above positions, and additionally, the internal auditor does not serve in any other position outside of the Bank which creates or which may create a conflict of interests with his position as internal auditor.

At the time of Mr. Sagi's appointment to the position of internal auditor, the Board of Directors believed that the significant banking experience which Mr. Sagi accumulated in his various positions in the Bank, his education (including completing specific studies in the field of internal auditing), and his qualifications for the position during his fulfillment of the position of deputy auditor, will enable him to deal successfully with the challenges involved in internal auditing, during a period of significant changes in the Bank's business affairs.

The employees of the internal audit department fulfill the requirements of Proper Banking Management Directive 307 - Internal Audit Function, and are appointed only with the approval of the internal auditor.

The internal auditor is subordinate to the Chairman of the Bank's Board of Directors.

The scope of employment of the internal auditor and his subordinate staff of employees amounted in 2016 to an annual average of approximately 10 positions (including the performance of internal auditing by means of professional external entities, at an average scope of 1.5 positions). The average scope of positions in the public complaints unit amounted in 2016 to 1.5 positions.

Audit plan

Internal auditing in the Bank operates in accordance with the annual work plan, which is based on the multi-annual audit work plan, which is comprised of a work plan for the current year, and a work plan for the coming three years.

The multi-annual work plan refers to most audit subjects, including the Bank's organizational units, subsidiaries and auxiliary corporations, work processes, marketed products and IT systems. Additionally, the internal audit unit also controls the Bank's management processes regarding the exposure to various risks, including: credit risks, financial risks, operational risks (including embezzlement and fraud risks), compliance risks, etc. Additionally, the internal audit unit monitors the correction of significant deficiencies which are identified in the audit work performed by the internal auditor, the auditor and the Commissioner of Banks in the Bank of Israel. A summary annual report is submitted once per year to the Chairman of the Board, to the Bank's CEO, and to the members of the Audit Committee.

The annual and multi-annual work plans are prepared in accordance with the Internal Audit Law, 5752 - 1992 and in accordance with Proper Banking Management Directive 307 - internal audit function.

The multi-annual work plan is derived from a structured methodology for the assessment of risks and controls, which was used to determine the frequency of audits on each individual subject.

According to the methodology which was used to prepare the new multi-annual work plan, the frequency of audits in the various entities was determined in accordance with the risk assessment. Regarding subjects with a higher risk level, it was determined that the frequency of auditing will be once per year, and regarding subjects with a lower risk level, the frequency of audits will be once every two or four years. Regarding information systems, auditing frequency was determined as appropriate for the system's risk. The multi-annual work plan was prepared by the internal audit unit with the assistance of an external company. Each year, the multi-annual work plan is updated, including taking into account changes in the organizational structure, changes and developments in the business, operational and risk management activities, regulatory provisions, audit findings, and more.

The annual work plan is derived from the multi-annual work plan.

The Audit Committee and Board of Directors approved the multi-annual work plan and the work plan for 2016, including the resources of the internal audit unit, as required according to the new multi-annual work plan.

As part of the process of implementing ICAAP in the Bank, and in accordance with the directives issued by the Commissioner of Banks, an independent entity is required to challenge and evaluate the process performed by the Bank. The Bank's internal audit unit was determined as the independent entity which will be responsible for preparing the independent survey document. The independent review document reviews the risk management system which is applied by the Bank, the ratio between risk and capital level of the banking corporation, and the methodology which was developed to monitor compliance with the internal capital policy. The independent survey document includes details regarding the applied controls and evaluation processes, the entity who performed them, and main conclusions from the survey. The document is presented to the Audit Committee and Board of Directors. For the purpose of preparing this survey, the internal audit unit enlists the assistance of external professional consultants.

The multi-annual work plan and the work plan for 2016 were discussed and approved by the Audit Committee on December 10, 2015, and later by the Chairman of the Board and by the Board of Directors Assembly, in its meeting on December 24, 2015.

During 2016, the internal audit unit operated in accordance with this work plan. However, in light of changes in business operations, and in several of the Bank's significant processes, and in accordance with the recommendation issued by the internal audit unit, the Audit Committee approved, during the year, several updates to the work plan. The annual and multi-annual work plans provide the internal auditor with the ability to exercise judgment and to deviate from the plans, provided that he updates the Chairman of the Board and the Audit Committee Chairman on an ongoing basis, and receives their approval for the above.

Additionally, significant transactions which were performed by the Bank, if any, are reported to the internal auditor and are evaluated by him, including the approval process for those transactions.

The internal auditor is entitled, within the framework of the approved budget, to make use of outsourcing for the performance of audit works which require special knowledge and expertise and/or if the unit is understaffed.

The internal auditor prepares the internal audit plans in accordance with conventional standards, and operates in accordance with the directives and guidelines issued by the Commissioner of Banks.

In the second half of 2016, an external assessment process was performed regarding the quality of work performed in the Bank's internal audit unit, and regarding its compliance with the requirement to prepare audit reports, in accordance with conventional professional standards. The findings of this evaluation will be presented to the Audit Committee and Board of Directors in the first quarter of 2017. Once per year, the internal audit unit performs an internal process of assessing the quality of the internal audit function, whose findings are presented to the Audit Committee.

The internal auditor is given free access to information, in accordance with the provisions of section 9 of the Internal Audit Law, 5752-1992, and in accordance with section 30 of Proper Banking Management Directive 307 - internal audit function, including continuous and immediate access to the Bank's information systems, including to financial data which are saved in those systems, and data of subsidiaries.

Reference to corporations which constitute material holdings

The internal auditor also serves as the internal auditor for all of the Bank's subsidiaries. The subsidiaries are included in the annual and multi-annual work plans, are audited at a frequency which was determined according to the assessment of current risks and controls, as specified in the previous section.

Audit reports and discussions regarding audit reports

In accordance with the work policy of the Audit Committee and the work policy of the internal auditor, which is derived from the former, each audit report is submitted in writing to the audited entity, to the CEO, to the Chairman of the Board, and to the Audit Committee Chairman. A discussion with the audited entities is held regarding each audit report, and additionally, a summary discussion is held regarding the significant findings and recommendations with members of management, and, if necessary, with the Bank's CEO. The audit reports are also presented to the Audit Committee for a discussion, after receiving the appropriate reference to the report's findings from the audited entity and from the Bank's CEO. Material audit reports are submitted to the Board of Directors.

A summary of the internal audit activities in the first half of 2016 was discussed by management, and later in the Audit Committee on September 19, 2016, and in the Board of Directors of September 29, 2016. A summary of annual activities was discussed by management, and later b the Audit Committee on January 26, 2017, and by the Board of Directors on January 31, 2017. The internal audit unit also reports to the Audit Committee, on a quarterly basis, regarding the method and degree of application of the findings of the internal audit unit which arose from the audit plans regarding the Bank's operating segments.

In case particularly severe findings are identified, an immediate report is submitted to the CEO, the Chairman of the Audit Committee and the Chairman of the Board. In accordance with the decision of the Audit Committee Chairman, audit reports in which severe findings have been identified are also presented for discussion to the Board of Directors.

The summary reports regarding the activities of the internal audit unit, and regarding the method and degree of implementation of the recommendations of the internal audit unit, are also presented to the Chairman of the Board and to the Bank's CEO.

Remuneration of the internal auditor

The employment cost of the internal auditor amounted during the reporting year to a total of NIS 986 thousand. On January 31, 2017, the Bank's Board of Directors approved a salary raise for the internal auditor, Mr. Ron Sagi. The fixed annual cost of salary of Mr. Sagi, after the aforementioned rasie, will amount to NIS 1,113 thousand.

Assessment of the Board of Directors

Once per year, the Audit Committee holds a meeting with the internal auditor only. This meeting was held on November 1, 2016.

Based on the routine reports which are submitted by the internal auditor, and in accordance with the work policies regarding the internal audit function, the Audit Committee was satisfactorily convinced of the internal auditor's fulfillment of the professional standards according to which he prepared the audit reports regarding the Bank's various activities. Additionally, the Audit Committee conducted a survey of the internal audit unit's work which was performed by an external entity, in accordance with Proper Banking Management Directive 307, regarding internal auditing.

The Audit Committee and Board of Directors believe that the fees and payments given to the internal auditor have no impact on the auditor's professional judgment.

The Board of Directors and the Audit Committee also believe that the scope, characteristics and continuity of the activities and work plan of the internal auditor are reasonable in light of the applicable circumstances, and constitute an appropriate solution for fulfilling the Bank's internal audit goals.

Disclosure regarding the financial statements approval process

The organ in the Bank which is responsible for oversight (as defined in Proper Banking Management Directive 303) is the Bank's Board of Directors. The names of Board members, and details regarding their accounting and financial expertise, are specified in the chapter regarding the Board of Directors and management, as are the salaries of the following corporate officers.

Fundamental issues pertaining to the disclosure given in the financial statements are discussed in the disclosure committee led by the CEO and with the participation of the chief accountant, the legal advisor, additional members of management, the Bank's secretary, the accounting department manager and the financial statements unit manager. The meeting includes the preparation, as observers, of the internal auditor and an external accountant. The committee's discussions involve subjects which have a significant impact on the financial statements, subjects which are of interest to the public, developments which are required for reporting to the public, and any other issue which the committee views as necessary to discuss before submitting the reports to the Audit Committee.

Prior to the approval of the financial statements by the Board of Directors, the draft financial statements, the draft Report of the Board of Directors and Management, the draft corporate governance and audit report, and additional details regarding the banking corporation's business affairs and the management thereof, and the draft risks report, are submitted to the Audit Committee and, in parallel, to the Board members who are not members of the Audit Committee.

The committee is comprised of the following Board members: the Committee Chairman, Mr. Shmuel Eshel (outside director), Mr. Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301 and independent director), Mr. Ram Harmelech and Dr. Ruth Arad (outside director).

The Board of Directors' Audit Committee discusses the financial statements with the participation of the Chairman of the Board as an non-member observer, and who is not present during the process of reaching decisions in the committee, in accordance with Proper Banking Management Directive 301.

The meeting is also attended by the CEO, legal advisor, risk manager, internal auditor and external accountants.

The committee meeting includes a detailed discussion of the financial statements, and a decision is reached regarding the issuance of a recommendation to the Board of Directors regarding the approval of the financial statements.

After the committee's aforementioned recommendation regarding the approval of the financial statements is received, updates are submitted regarding the draft financial statements and the draft Board of Directors' Report, following the aforementioned committee meeting, to the Board members for review, several days before the date of the scheduled meeting for the approval of the reports (the aforementioned draft is submitted before the above date to the Board members, concurrently with its submission to the Audit Committee).

The Board meeting, with the participation of the CEO, the Chief Accountant, Internal Auditor and the Chief Risk Officer includes a review of the financial results and the financial position, and a presentation of the data regarding the Bank's operations. Additionally, answers are provided to the Board members' questions.

As background material in advance of the discussion, the Board of Directors receives the draft financial statements, along with extensive associated background material regarding the Bank's activities.

The meeting is also attended by the Bank's external auditor, who provides his professional opinion regarding the financial statements, and regarding accounting issues in connection with the financial statements and control issues which arose during the performance of the audit. At the end of the discussion, the Board of Directors decides regarding the approval of the financial statements.

Auditor's professional fees [1,2,3]

NIS Thousands

	Consolidated		The Bank	
	For the year ended December 31			
	2016	2015	2016	2015
For auditing activities[4]				
Auditor	1,384	1,384	1,232	1,230
For services associated with auditing [5]				
Auditor	29	12	-	-
For tax services [6]				
Auditor	405	347	405	347
For other services				
Auditor	279	349	279	349
Total salary of auditors	2,097	2,092	1,916	1,926

(1) Report by the Board of Directors to the annual general shareholders' meeting regarding the auditors' fees for audit activities, with respect to additional audit activities, in accordance with sections 165 and 167 of the Companies Law, 5759-1999.
(2) The auditors' fees include payments to partnerships and corporations under their control, as well as payments in accordance with the VAT Law.
(3) Including paid fees and accrued fees.
(4) Audit of annual financial statements and review of interim statements.
(5) Audit related fees, primarily including prospectuses.
(6) Current tax services and preparation of reports to tax authorities.

Executive salary

Presented below are details regarding the benefits and amounts which were paid, or for which provisions were recorded, for the Chairman of the Board of Directors and for the five highest salary recipients among the corporate officers

For the year ended December 31, 2016											
	Details of remuneration recipient				Remuneration for services				Other remuneration	Total
	Name	Position	Scope of employment	Stake in the corporation's capital	Salary[1]	Management fees[2]	Bonus[3]	Benefit with respect to share-based payment[4]	Interest[5]	
A.	Zeev Gutman[6]	Chairman of the Board of Directors	Partial	-	1,683	-	-	-	-	1,683
B.	Gil Topaz[7]	CEO	Full	-	1,705	-	-	-	2	1,707
C.	Israel Boker[8]	Acting CEO, Executive VP, Outgoing Retail Division Manager	Full	-	1,245	-	-	-	1	1,246
D.	Michael Tayer[9]	Executive VP, Resource Division Manager	Full	-	1,132	-	-	-	-	1,132
E.	Michael Ben Yishai[10]	VP, Risk Division Manager	Full	-	983	-	32	-	-	1,015
F.	Ron Sagi[11]	VP, Chief Internal Auditor with the status of management member	Full	-	985	-	-	-	1	986

For the year ended December 31, 2015											
	Details of remuneration recipient				Remuneration for services					Other remuneration	Total
	Name	Position	Scope of employment	Stake in the corporation's capital	Salary (1)	Management fees (2)	Bonus (3)	Benefit with respect to share-based payment (4)	Interest (5)		
A.	Zeev Gutman (6)	Chairman of the Board of Directors	Partial	-	406	-	-	-	-		406
B.	Zeev Gutman (12)	Outgoing Chairman of the Board of Directors	Partial	-	-	1,491	-	-	-		1,491
C.	Gil Topaz (7)	CEO	Full	-	343	-	-	-	-		343
D.	Uri Paz (13)	Outgoing CEO	Full	-	2,082	-	-	-	-		2,082
E.	Israel Boker (8)	Acting CEO, Executive VP, Retail Division Manager	Full	-	1,473	-	15	-	-		1,488
F.	Michael Tayer (9)	Executive VP, Resource Division Manager	Full	-	1,135	-	15	-	1		1,151
G.	Michael Ben Yishai (10)	VP, Risk Division Manager	Full	-	980	-	15	-	1		996
H.	Ron Sagi (11)	VP and internal auditor, holds the status of management member.	Full	-	954	-	15	-	1		970

(1) Including provisions for severance pay, remuneration, study funds, and National Insurance, as well as fringe benefits. Does not include payroll tax.
(2) Includes a payment of monthly management fees and associated benefits, but does not include VAT.
(3) Includes a special bonus which was given to corporate officers, as specified in the remuneration policy, which was set aside during the reporting year and which has not yet been paid (excluding payroll tax). In accordance with the remuneration policy for corporate officers (for the years 2014-2016) with respect to the amounts which were provided (see note 1), and in light of the fact that "reported returns" (as defined in the aforementioned policy) were lower than 6.5%, the deferred remuneration with respect to 2014 which was supposed to be paid during the reporting year, was canceled (see Note 23 to the financial statements); Regarding amounts which were canceled for corporate officers, see below in notes (8), (9) and (13).
(4) For details, see Note 24 to the financial statements.
(5) Includes an interest benefit with respect to loans given under employee conditions.
(6) Mr. Zeev Nahari - the Bank's Chairman of the Board since October 11, 2015 - for details regarding his employment terms, see Note 34.
(7) Mr. Gil Topaz - began serving as the Bank's CEO on November 1, 2015 - for details regarding his employment terms, see Note 34.
(8) Mr. Israel Boker - On July 24, 2016, Mr. Israel Boker discontinued serving as the Acting CEO, Executive VP, member of management and Retail Division Manager in the Bank. According to his terms of employment, each of the parties to the employment agreement was entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Boker was entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which were accumulated to his credit in the various funds, and to an adjustment bonus in an amount equal to three monthly salaries in the amount of the fixed salary of Mr. Boker, as specified in the employment agreement. In accordance with the remuneration policy for corporate officers (for the years 2014-2016), and due to the fact that the reported returns (as defined in the aforementioned policy) were lower than 6.5%, in 2015 and 2016, the deferred remuneration with respect to 2014, which was supposed to be paid in each of the years 2015 and 2016, in the amount of NIS 58 thousand, was canceled.
(9) Mr. Michael Tayer - Resources Division Manager, employed in the Bank since September 18, 2011, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Tayer is linked to the consumer price index. Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Michael Tayer will be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accrued for him in the various funds. Within the framework of the executives program, phantom units were allocated to Mr. Michael Tayer (Class A and Class B) (for details regarding the aforementioned executives program, see Note 34). In accordance with the remuneration policy for corporate officers (for the years 2014-2016), and due to the fact that the reported returns (as defined in the aforementioned policy) were lower than 6.5%, in 2015 and 2016, the deferred remuneration with respect to 2014, which was supposed to be paid in each of the years 2015 and 2016, in the amount of NIS 37 thousand, was canceled.
(10) Mr. Michael Ben Yishai - Risk Division Manager, employed in the Bank since January 1, 1998, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Ben Yishai is linked to the consumer price index. Each of the parties to the employment agreement is entitled to terminate the agreement, by providing notice three months in advance. Mr. Ben Yishai will also be entitled to have the Bank the release to him upon the conclusion of his employment, all of the funds which have accrued for him in the various finds. In accordance with the remuneration policy for corporate officers (for the years 2014-2016), and due to the fact that the reported returns, as defined in the aforementioned policy, are lower than 6.5%, which would confer eligibility for the variable bonus, the Bank's Board of Directors approved, after receiving approval from the Remuneration Committee, the provision of a special bonus to the Bank's corporate officers, including to Mr. Michael Ben Yishai, in the amount of NIS 32 thousand with respect to 2016. The aforementioned bonus was provided during the reporting year, but has not yet been paid (excluding payroll tax). Mr. Ben Yishai will discontinue serving as the Bank's Chief Risk Officer on March 1, 2017. In addition to the aforementioned conditions, and in accordance with the decision of the Remuneration Committee and the Board of Directors, an adjustment bonus will also be granted to Mr. Ben Yishai, in an amount equal to three monthly salaries (gross).
(11) Mr. Ron Sagi, Chief Internal Auditor, employed in the Bank since September 20, 1998, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Sagi is linked to the consumer price index. Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Mr. Sagi will also be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accrued for him in the various funds.
Mr. Ron Sagi has a balance of credit under preferred conditions, similarly to all of the Bank's employees, which amounts to NIS 13 thousand as of December 31, 2016.
(12) Mr. Zeev Gutman - discontinued serving as the Bank's Chairman of the Board on September 10, 2015 - for details regarding his employment terms and resignation, see Note 34.
(13) Mr. Uriel Paz - concluded his tenure as the Bank's CEO on October 31, 2015 - for details regarding the terms of his employment and resignation, see Note 34.

For details regarding The Remuneration for Corporate Officers in Financial Corporations Law, see below in the chapter regarding legislative updates. It is noted that this Law does not affect the past rights of employees in Bank of Jerusalem.

Provision of a liability for indemnification of corporate officers in the Bank and in its subsidiaries

On January 29, 2012, the general shareholders' meeting of the Bank approved a decision, according to which the Bank will provide, to anyone who serves, from time to time, as corporate officers in the Bank and in its subsidiaries, an undertaking to indemnify with respect to financial debt which will be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking (hereinafter: the "Letter of Undertaking to Indemnify"). The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

On October 9, 2013, the general shareholders' meeting of the Bank approved updates to the letter of undertaking to indemnify corporate officers in the Bank and in its subsidiaries, and accordingly, a reference was added in the letter of indemnity to additional laws, in order to allow indemnification in cases which are permitted by law, also by virtue of those laws. Additionally, a generally applicable section was added which may allow indemnification (with respect to trial expenses and payments to parties injured by the breach), insofar as such indemnification will be permitted in accordance with additional laws. For details regarding the update to the letter of indemnification, see the Bank's immediate report dated September 3, 2013 (reference number 2013-01-136176).

On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letter of indemnity to directors who are controlling shareholders and/or their relatives and/or in whom the controlling shareholders may have a personal interest in the provision of letters of indemnity to them, for an additional period of three years, beginning on October 9, 2016 (the date when 3 years passed since the date of approval of the letters of indemnity to Mr. Zalman Shoval, Gideon Shoval and Moshe Bauer), under the same conditions as those of the current letters of indemnity, which were approved in October 2013, as stated above, and to all other corporate officers, including to the other directors and to the aforementioned directors.

Remuneration policy for the Bank's corporate officers for the years 2017-2019

On December 21, 2016, the Bank's general meeting of shareholders approved a new remuneration policy for the Bank's corporate officers for the years 2017-2019, as approved by the Bank's Board of Directors on October 27, 2016, after receiving the recommendation of the Remuneration Committee (hereinafter: the "New Remuneration Policy for Corporate Officers"); this is pursuant to section 267(A) and 267(B) of the Companies Law, 5759 - 1999, to Proper Banking Management Directive 301A, and to the provisions of the Remuneration to Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Remuneration), 5776-2016 (for details regarding the new remuneration policy for corporate officers, see the immediate report regarding the convention of the general meeting on November 13, 2016 (reference number: 2016-01-077067).

For details regarding the new remuneration policy for corporate officers, see Note 23 to the financial statements.

It is noted that until the end of 2016, the current remuneration policy for corporate officers, for the years 2014-2016, applies (subject to the transitional provisions specified in the new remuneration policy). For details regarding the current remuneration policy for corporate officers for the years 2014-2016, see Note 23 to the financial statements.

Remuneration policy for the Bank's employees and key employees who are not corporate officers, for the years 2017-2019

On October 27, 2016, after accepting the recommendation of the Remuneration Committee, the Bank's Board of Directors approved the remuneration policy for employees and key employees in the Bank who are not corporate officers, for the years 2017-2019, in accordance with the provisions of Proper Banking Management Directive 301A (hereinafter: the "New Remuneration Policy For Employees And Key Employees Who Are Not Corporate Officers").

For details regarding the with respect to for employees and key employees in the Bank who are not corporate officers, see Note 23 to the financial statements.

It is noted that until the end of 2016, the current remuneration policy for employees and key employees in the Bank who are not corporate officers for the years 2014-2016 applied. for details regarding the aforementioned current remuneration policy, see Note 23 to the financial statements.

Amendment to the terms of tenure and employment of the Bank's CEO, Mr. Gil Topaz

On December 21, 2016, the general shareholders' meeting of the Bank approved an amendment to the terms of tenure and employment of the Bank's CEO, Mr. Gil Topaz, following the approval of an amendment to the aforementioned employment terms, by the Board of Directors and the Remuneration Committee on October 27, 2016 (hereinafter: "Amendment To The Terms Of Tenure And Employment Of The Bank's CEO"); in accordance with the provisions of The Remuneration for Corporate Officers in Financial Corporations Law and the new remuneration policy for corporate officers (for details regarding the amendment to the terms of tenure and employment of the Bank's CEO, see the immediate report regarding the convention of the general meeting on November 13, 2016, reference number: 2016-01-077067).

The amendment refers to the variable annual bonus limit which entered into effect beginning on October 12, 2016, subject to the transitional provisions set forth in the new remuneration policy for corporate officers, while with respect to the terms which were amended in accordance with the new remuneration policy, these entered into effect beginning on January 1, 2017. It is hereby clarified that until the entry into effect of the amendment to the terms of tenure and employment of the CEO, the previous terms of tenure and employment would continue to apply.

For details regarding the amendment to the terms of tenure and employment of the Bank's CEO, see Note 34 to the financial statements.

Transactions with controlling shareholders

On February 21, 2017, the Audit Committee ratified its decision from February 18, 2016, regarding criteria for distinction between extraordinary banking transactions and non-extraordinary banking transactions, as well as criteria for the definition of insignificant (non-banking) transactions. Including adjustments and updates, and in the wording specified below, the decision is in effect for one year. (For background details regarding the original decision of the Audit Committee on the aforementioned subject from February 18, 2010, see the description regarding transactions with the controlling shareholder in the Bank's annual report as of December 31, 2014, which was published on February 25, 2015, and which is presented herein by way of reference, on page 118.)

Presented below are details regarding the criteria which were determined, as stated above, in the aforementioned meeting of the Audit Committee, on February 21, 2017, distributed into banking transactions and non-banking transactions, as follows:

Definitions:

For the purpose of the aforementioned decisions, including all of their sections, the following terms will have the meanings specified alongside them:

A. "**Supervised Capital**" - as this term is defined in Proper Bank Management Directive 202 of the Commissioner of Banks.

B. "**Debt**" - as this term is defined in Proper Bank Management Directive 312 of the Commissioner of Banks.

C. "**Market terms**" - terms which are not preferable to the terms of similar transactions of the same type as the transaction, which are performed by the Bank with individuals or corporations who are not the Bank's controlling shareholders, or transactions with individuals in which the controlling shareholder does have a personal interest. Market conditions with respect to banking transactions are evaluated relative to the terms under which transactions of the same type, and in similar scopes, are performed according to the conventional practice regarding the evaluation of transactions with related parties, in accordance with Proper Bank Management Directive 312, with customers of the Bank who are not related parties or entities regarding which the controlling shareholders have a personal interest in the transaction with them; Market conditions with respect to transactions which are not banking transactions will be evaluated with respect to transactions of the same type as the Bank engages with suppliers and/or with respect to offers of other suppliers, which were evaluated before a decision was reached to enter the engagement. In cases where the Bank does not have transactions of the same type, the market conditions will be evaluated with respect to transactions of the same type which are performed on the market, and provided that the transaction is in the ordinary course of business, and that there is a market for transactions of this kind in which similar transactions are performed.

D. "**Controlling shareholder group**" - the controlling shareholder (as this term is defined in the Securities Law, 5728-1968), together with the private companies which are related to him, according to the definition of the term "related party" in Proper Bank Management Directive 312, and together with his relatives and private companies related to them, including his family members who live with him, or whose livelihood is dependent on him; The definition of a "relative" in accordance with the provisions of the Banking Law (Licensing) includes a sibling, parent, child, spouse's child and spouse of any of the above.

"Extraordinary" banking transactions:

Banking transactions which meet the following criteria will be considered extraordinary transactions:

A. With respect to "liability" transactions - a liability transaction will be considered extraordinary if, following its implementation, the total liabilities of the controlling shareholder group exceed 5% of the supervised capital, as reported in the financial statements which were last published before the date of the transaction, or if the increase in the liability of a single borrower from the controlling shareholder group, following the transaction, exceeds 2% of supervised capital on the date of the performance of the transaction.

If the Bank becomes aware of liability transactions in which the controlling shareholder has a personal interest, and to which Proper Banking Management Directive 312 (business affairs of a banking corporation with related persons, hereinafter: "Proper Banking Management Directive 312") does not apply, since they are not performed with a "related party", as this term is defined in Proper Bank Management Directive 312, the Bank will present them for approval in accordance with the provisions of the aforementioned Directive 312. Regarding these transactions, the Bank will submit information in its annual statements, on a cumulative basis, according to the framework specified in the following tables (a separate table for these transactions, and for the aforementioned transactions to which Proper Bank Management Directive 312 applies). In this context, it should be clarified that the effective criterion regarding an extraordinary liability transaction with the controlling shareholder, or in which the controlling shareholder has a personal interest, will apply regardless of whether Directive 312 applies to the aforementioned transaction or not. Additionally, each specific provision for doubtful debts or write-off of a certain amount with respect to a liability of the controlling shareholder or of a corporation related to him will be considered a significant transaction.

B. Regarding "deposit" transactions - the depositing of funds in a deposit, of any kind whatsoever, will be considered an extraordinary transaction if as a result, the total deposits of the controlling shareholder group exceed 1% of total public deposits, as reported in the last financial statements which will be published by will be published before the transaction date. Receipt of a deposit from a company which is a "related party" of the controlling shareholder (as this term is defined in Proper Bank Management Directive 312), which is not included among the companies which are under the control of the controlling shareholder, will be considered extraordinary, if as a result, the total deposits of that "related party" exceed 1% of total public deposits, as reported in the last financial statements which will be published by the Bank before the date of the transaction.

C. Regarding a transaction with securities, or a transaction in foreign currency (which is not a debt transaction, or a deposit transaction, as specified above) - a transaction with securities or in foreign currency will be considered extraordinary if the total annual commission charged for it is equal to, or exceeds, 4% of the Bank's total operating income from commissions, according to the Bank's last annual financial statements.

D. Any other banking transaction, of the types of transactions which the Bank generally performs with the public, provided that it does not involve the provision of credit by the Bank, where the amount of such transaction exceeds 0.1% of the regulatory capital on the performance date of the transaction.

E. A negligible temporarily deviation from the scopes specified in sections (a) to (d) above, and for a period which does not exceed 30 days, will not suffice to change the classification of the transaction as a "non-extraordinary transaction", and disclosure will be given regarding those exceptions within the framework of the annual report. It is hereby clarified that any change to an extraordinary transaction constitutes, in itself, an extraordinary transaction, and an immediate report will be given regarding it.

Non-banking transactions:

The following transactions will be considered insignificant transactions:

A. Transactions for the acquisition of services from the controlling shareholder or in which the controlling shareholder has a personal interest, provided that they do not constitute an engagement with the controlling shareholder or a relative of his, regarding the terms of his tenure and employment, which are performed in the ordinary course of business and under market conditions, and whose scope does not exceed a total of NIS 250 thousand, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital. The above total will not take into account individual transactions, the scope of each will be less than NIS 25,000.

B. Transactions involving the rental of areas from the controlling shareholder, or in which the controlling shareholder has a personal interest, which were approved in a single calendar year, in the ordinary course of business, and under market conditions, and whose total scope does not exceed 0.1% of supervised capital.

C. Bearing the controlling shareholder's expenses, in the ordinary course of business and under market conditions, for the purpose of participating in representative events and in customer conferences of the Bank and its subsidiaries, upon their request - expenses up to a total of NIS 100,000 per year.

D. Any other transaction which is performed in the ordinary course of business and under market condition, whose scope amounts to a maximum total of NIS 250,000, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital. The above total will not take into account individual transactions, the scope of each will be less than NIS 25,000.

Presented below are details regarding the balances of the controlling shareholder group and of other parties regarding which the controlling shareholder has a personal interest in their dealings with the Bank (NIS Thousands):

	Balance as of December 31, 2016			Highest balance in 2016		
Balance type	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**
Credit	29.3	-	-	67.6	-	-
Unused facility	120.7	-	-	149.8	-	-
Deposits	(4,538.3)(1)	(1,215.4)	-	(9,710.0)(2)	(1,240.1)	-

	Balance as of December 31, 2015			Highest balance in 2015		
Balance type	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**
Credit	0.5	-	-	19.5	-	-
Unused facility	149.5	-	-	149.5	-	-
Deposits	(7,298.7)(1)	852.6	-	340,539.5(2)	873.3	-

(1) Of which, a total of NIS 0.3 million and NIS 1.5 million were held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties as of December 31, 2016 and December 31, 2015, respectively.

(1) Of which, a total of NIS 3.8 million and NIS 333.4 million were held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties during 2016 and 2015, respectively.

Presented below are details regarding income from fees with respect to transactions with securities and/or transactions in foreign currency (which are not debt transactions or deposit transactions) by the controlling shareholder group and by others regarding whom the controlling shareholder has a personal interest in their engagements with the Bank

(NIS Thousands):

	For 2016			For 2015		
Balance type	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**	**Controlling shareholder group**	**Relatives of the controlling shareholder**	**Export Investment Co. Ltd.**
Income from fees	16.4	3.2	0.5	1,559.7	3.7	2.2

It is noted that until December 31, 2015, credit facilities were recorded regarding activities with securities in the accounts of the controlling shareholders and companies under their control, at a total scope of NIS 6 million; In 2015, these facilities were not used. (The facilities were provided in the Bank's ordinary course of business, and under market conditions.) In 2016, there were no such facilities.

Presented below are details regarding non-banking transactions with the controlling shareholder, or in which the controlling shareholder has a personal interest, for the year ended December 31, 2016 (in thousands of NIS), and which do not constitute insignificant transactions, as defined in the aforementioned decision of the Audit Committee regarding criteria for the classification of transactions:

1. Directors and officers (D&O) insurance policy:

On September 29, 2016, the Bank's Board of Directors approved, after approval was received from the Remuneration Committee, in its meeting on September 15, 2016, and further to and in accordance with the decision of the general meeting of the Bank's shareholders on May 10, 2015, the Bank's engagement with respect to insurance for directors and corporate officers (including the CEO) (including in the subsidiaries), who hold office from time to time, as applicable, in a directors and officer insurance policy, as follows: the insurance coverage will have a liability limit of USD 30 million per event and USD 60 million cumulatively per insurance period, for a period of up to 12 months, from October 1, 2016 to September 30, 2017. The annual premium which the Bank will pay with respect to the acquisition of the officers insurance policy will be in the amount of approximately USD 83,000, and the Bank's deductible amount in the officers' insurance policy will not exceed a total of USD 25,000 for the Bank.

Further to the aforementioned resolution of the Board of Directors, the Board of Directors approved, in the aforementioned meeting, that the Bank's engagement in an officers' insurance policy will also apply to corporate officers who are relatives of the controlling shareholder who serve in the Bank as of the date of this decision, and that the temrs of the engagement with them are identical to the terms of engagement with the other corporate officers in the Bank, and it is not expected to materially affect the Bank's profitability, assets or liabilities.

2. Letters of indemnity

On October 30, 2016, re-approval was received from the general meeting of the Bank's shareholders (following the approval of the Remuneration Committee on September 6, 2016, and of the Board of Directors on September 8, 2016) to provide an letter of indemnity to directors who are controlling shareholders and/or their relatives and/or regarding whom the controlling shareholders may have a personal interest in the provision of letters of indemnity to them, for an additional three year period, beginning on October 9, 2016 (the date when 3 years passed since the date hen the letters of indemnity were approved for the aforementioned directors, Messrs. Zalman Shoval, Mr. Gideon Shoval and Mr. Moshe Bauer), under the same conditions as those of the current liability certificates, which were approved on October 9, 2013 for all other corporate officers, including the aforementioned directors.

3. Annual remuneration

On April 7, 2016, a decision was reached by a special general meeting of the Bank's shareholders, to approve an increase to the amount of annual remuneration which is paid to the outside directors, to the independent directors and to the other directors, excluding directors who are controlling shareholders and directors who are relatives of the controlling shareholders, and excluding the Chairman of the Board, who currently and who will serve in the future in the Bank, from time to time, in accordance with the Companies Law, for a total of NIS 62,784 per year (with respect to the index which was published for January 2016), and with the addition of linkage differentials in accordance with the Remuneration and VAT Regulations, from the date of the appointment of Dr. Ruth Arad as an outside director in the Bank; It is hereby clarified that the amount of remuneration for participation in the meeting, which is paid as of the date of this report, will not be changed.

On April 19, 2016, the Bank's Board of Directors approved, in accordance with section 1B(3) of the Companies Regulations (easements in transactions with interested parties), 5760 - 2000, an update to the annual remuneration and the terms thereof, which will be paid to directors who are controlling shareholders and/or their relatives (Messrs. Zalman Shoval and Gideon Shoval), and will be identical to the annual remuneration which is paid to the outside directors, to the independent directors and to the other directors (who are not the controlling shareholders or their relatives), as approved in the aforementioned general meeting.

4. Rental transactions

The Bank (through a wholly owned subsidiary) rents, in the ordinary course of business, and under market conditions, office and warehouse areas, as follows:

A. The Bank rents (through a wholly owned subsidiary) from a wholly owned subsidiary of a relative of the controlling shareholder warehouses with an area of 565 square meters, in Jerusalem, which are used as the Bank's archive. In 2016, the lease agreement was renewed for an additional two years, until June 30, 2018, for a total consideration of approximately NIS 1,017 thousand, for the entire lease period (including maintenance fees, which include electricity, water, parking and security expenses), plus VAT. The amounts presented above are immaterial to the Bank.

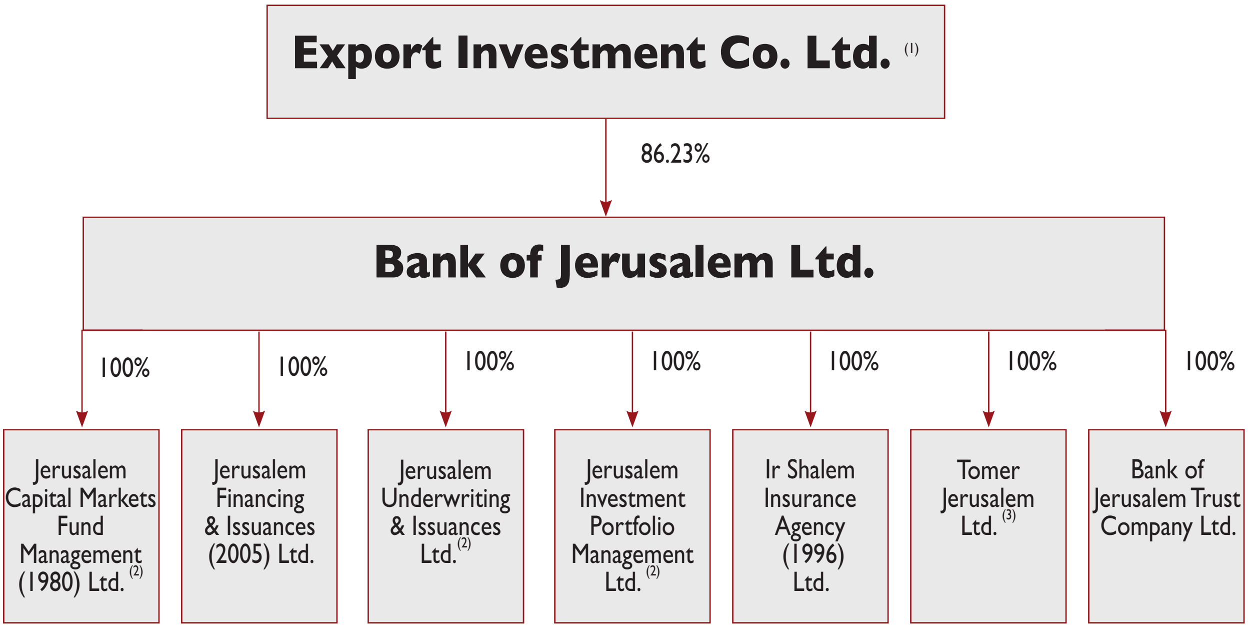
B. The Bank (through a wholly owned subsidiary) was given, until September 30, 2016, rights of use and possession with respect to a meeting room in Shalom Tower, with an area of approximately 100 square meters, by Export Investment Co. Ltd. (the Bank's controlling shareholder). In total, the Bank paid, in 2016, NIS 92 thousand for the aforementioned usage rights (including maintenance fees beginning on October 1, 2016, the Bank has leased (through a wholly owned subsidiary) the aforementioned area directly from a wholly owned subsidiary of a relative of the Bank's controlling shareholder. The lease period was determined as three years, and the total consideration which will be paid (including maintenance fees) amounts to approximately NIS 371 thousand, plus VAT. The amount presented above are immaterial to the Bank.

Part B - Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

Diagram of the Bank's Holding Structure

Presented below is a diagram of the Bank's holding structure in subsidiaries and associate companies as of December 31, 2016.

For details regarding the areas of engagement of the subsidiaries and associate companies, see Note 15 to the financial statements.



(1) For details regarding the Bank's controlling shareholders, see below.
(2) Inactive.
(3) Mr. Zalman Shoval has immaterial holdings in the company, as specified in regulations 11-13 in the periodic report.

Controlling shareholders of the Bank

Mrs. Kena Shoval is the controlling shareholder of the Bank, and holds 74.94% of the issued and paid-up share capital of Exports Investment Co. Ltd., which is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. (hereinafter: "Export"). Export holds 86.23% of the Bank's issued and paid-up share capital. Additionally, Mrs. Shoval holds 0.34% of the Bank's issued and paid-up share capital, through the companies K. Shoval Holdings Ltd.; ICC Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd. and Foreign Trust Ltd., which are private companies owned and controlled by Mrs. Kena Shoval.

In accordance with a legal opinion which was presented to the Bank, Mr. Zalman Shoval (the husband of Mrs. Kena Shoval, and a director in the Bank) is considered a controlling shareholder in accordance with the provisions of the Securities Law, 5728-1968, and in accordance with the provisions of the Banking Law (Licensing).

Fixed assets and facilities

The amortized cost of buildings and equipment amounted, as of December 31, 2016, to NIS 157.8 million, as compared with NIS 156.9 million as of December 31, 2015.

Most of the areas in which the Bank's business operations are managed are rented areas. As of December 31, 2016, the Bank has available to it areas amounting to approximately 13,500 square meters, similarly to the total areas which were available to it as of December 31, 2015.

As of the end of 2016, the area of the headquarters in Airport City amounted to a total area of approximately 5,000 square meters. The remaining area was used for the Bank's branches and various departments.

As of the end of 2016, the Bank owns real estate with a total area of approximately 500 square meters, similarly to the total as of December 31, 2015.

The rental agreement with respect to the Bank's headquarters in Airport City was signed on December 19, 2010. The rental agreement is for a period of 7 years (until 2018), with an option to extend for an additional 7 years (until 2025), and an additional option to extend for an additional 7 years (until 2032).

The remaining fixed assets include software costs (see below in the IT chapter), equipment, furniture and vehicles, which are used by the Bank for its operating activities.

For additional details, see also Note 16 to the financial statements.

The Bank's policy is to hold only the real estate properties which it actually requires, or which it is expected to require in the future. The Bank evaluates, on an ongoing basis, the characteristics and locations of the areas which it requires, based on its business plan and the plan regarding the national distribution of branches, and performs adjustments as required.

Intangible assets

Trademarks and domain names - The Bank holds the intellectual property rights to the following trademarks, which are registered under the Bank's name in the Registrar of Trademarks: "Bank of Jerusalem", "Bank of Jerusalem - For the Important Decisions in Life" and "Mehadrin Banking". The Bank is also the registered owner of the following domain names:

www.בנק ירושלים.co.il
cfb.co.il
Accptbankjerusalem.co.il
bankjerusalemltd.co.il
bankjerusalem.com
bankjerusalem.co.il
yirshalem.co.il

www.bankofjerusalem.co.il
www.jerusalembank.co.il
www.bankjerusalem.org
www.bankjerusalem.net
www.bankjerusalem.co
www.bank-jerusalem.com
www.jbank.co.il
www.בנק-ירושלים.co.il

Databases - The Bank and member companies in the group are the owners of registered databases, which contain data in connection with the Bank's business operations and customers.

Customer relations - As part of the acquisition of Clal Batucha, part of the acquisition cost was attributed to an asset representing "customer relations" (in other words, the estimated fair value of the company's existing contracts, which represents the part of the acquisition cost which is attributed to the company’s ability to generate future cash flows from the renewal of its existing contracts as of the acquisition date). As of December 31, 2016, this asset is estimated at a total of approximately NIS 0.8 million, in addition to the Bank's customers prior to the acquisition transaction.

IT and information systems

The Bank's IT department works to develop advanced technological systems and to continuously improve the Bank's IT systems and infrastructures. This activity is managed by Tomer Jerusalem Ltd.

IT centers

The Bank's main IT center is located in the management building, at Airport City in Lod.

During the first quarter of 2016, the Bank's DR site was transferred from Jerusalem to hosting in the IBM building in Netanya.

Information systems

Support for the Bank's business operations is provided through 3 core systems:

Commercial system (BankWare) - used to manage the commercial activities, mortgages in foreign currency and the main ledger; mortgage management system - used to manage mortgage activities in NIS; central capital market system - used to manage activities in the capital market. The Bank also has various additional systems and applications which are used for business, operational, and managerial data purposes.

Integration and connectivity

The Bank operates according to a SOA architecture. The Bank has a software tool (ESB - Enterprise service bus) which allows integration between the channel systems and the core systems. The integration method used to integrate between the systems is performed by developing web services securely.

Backup and disaster recovery

The Bank's business continuity plan is derived from the Bank's goals in case of emergency, critical business processes and services which were defined in the business impact analysis (BIA) process.

For the purpose of meeting the defined recovery targets, a backup (DR) site exists which includes the systems which support critical processes.

In 2016, the Bank continued improving its preparedness with respect to business continuity in case of emergency / failure.

Cyber protection and information security

In 2016, the trend of improvement and expansion of the Bank's cybersecurity and information security segment continued.

Surveys and penetration tests were performed in the Bank's systems, after which improvements were introduced to the information systems and to the financial systems, which improved information security. Furthermore, additional tools were installed to increase protection and filtering against damages and attacks. For details regarding the Bank's announcement regarding a hacking breach of a securities information website which is separate from the Bank's central website, see Note 35 to the financial statements.

IT infrastructure

The Bank's IT infrastructure fully supports the various systems. In 2016, several improvements were implemented to the Bank's IT infrastructure, including replacement of the organizational file server, improved efficiency of the printing network, an upgrade to the firewall infrastructure, evaluation of the server hardware standard, acquisition of an update system for workstations and servers, and more. In 2016, 50 ATM's of the Bank were installed, which are not adjacent to the Bank's branches.

Management of suppliers

The Bank relies on various systems, including the core systems which were developed and are maintained by various companies. The Bank ensures to maintain appropriate engagements with all external IT suppliers, in order to ensure the proper functionality, continuous operation and technological and functional upgrades of the systems. The Bank periodically verifies the condition of the companies and their financial stability, primarily regarding systems which support critical business services.

The Bank's relationships are set forth in detailed agreements vis-à-vis each and every supplier, which define the supplier's duties towards the Bank (including SLA's), as well as the Bank's duties towards the supplier.

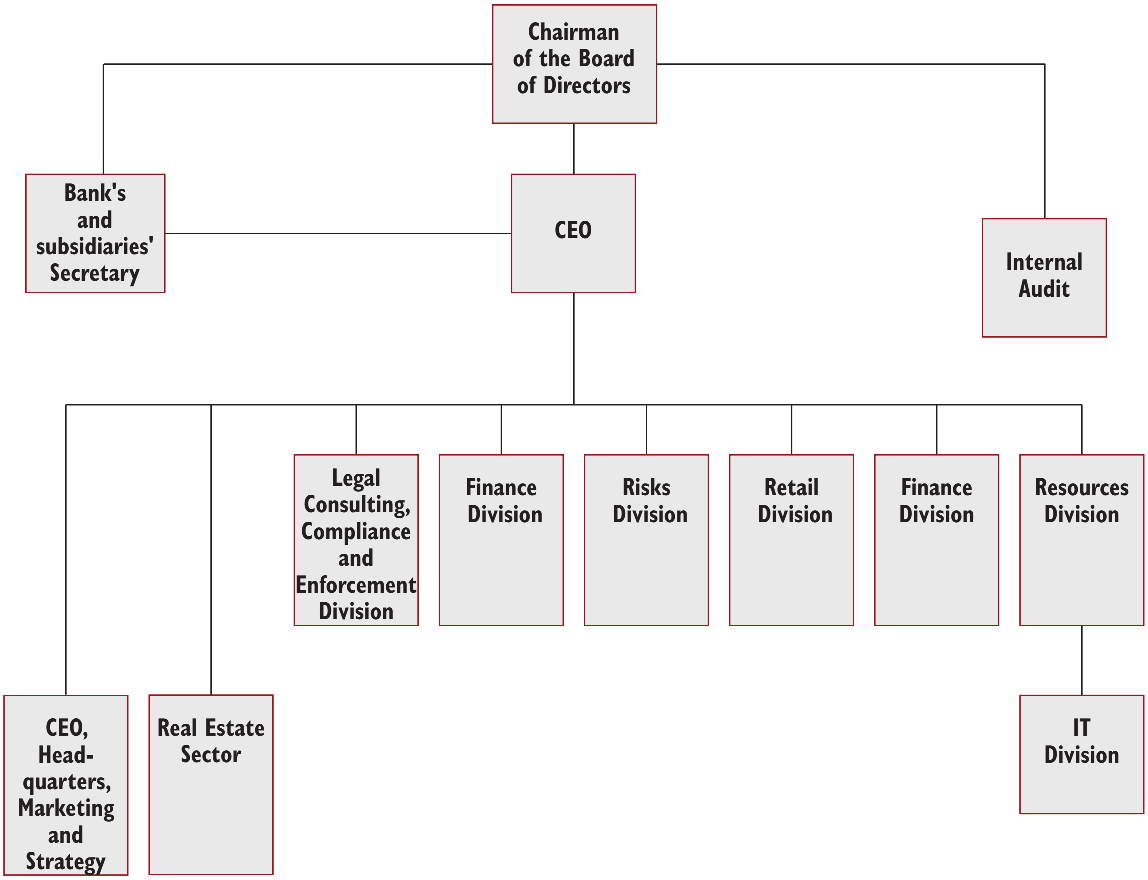
The Bank is dependent on software suppliers of the Bank's commercial system and mortgage system. The Banks receives full scale service regarding capital market issues from FMR Ltd., and is dependent on it in this regard. Source codes and documentation for these software programs are deposited in trust, in accordance with the directives of the Banking Supervision Department. The Bank relies on the technological infrastructures of VMWARE, IBM, EMC, Oracle and Microsoft.

Scope of investment

The scope of the investment in software costs amounted in 2016 to approximately NIS 51 million, as compared with approximately NIS 50 million last year.

Human capital

Presented below is a diagram of the Bank's organizational structure:



Workforce outline [1][2]

Presented below are details regarding the number of employees employed in the Bank and its subsidiaries:

	As of the end of		Annual average	
	2016	2015	2016	2015
Number of employees:	623	607	623	608
Of which, through outsourcing [2]	81	87	83	94
Number of positions:				
Ordinary work hours	613	603	613	604
Overtime	14	24	22	23

(1) The report does not include the Bank's call center, which is operated through an external provider, cleaning and security employees, and employees who are employed through service providers as temporarily substitutes for bank employees, or on a project basis.
(2) The outsourcing section includes employees who are employed through software houses and other companies which provide services to the Bank, from which certain employees are hired for specific positions.

For details regarding the positions in the different operating segments, see the chapter regarding operating segments in this report.

Rotation and vacations

The Bank operates in accordance with the Proper Banking Management Directive regarding rotation, and regards the rotation of senior sensitive position holders as an important component of the internal control processes in the organization. In case it is not possible to rotate senior position holders, the Bank implements compensating controls. During 2016, 43 employees were rotated, of which 5 hold sensitive positions. During 2015, 56 employees were rotated, of which 3 hold sensitive positions.

The Bank established a specific vacation usage target for the Bank's employees, and performs specific monthly followup of the target's fulfillment. In 2016, inter alia, due to increased enforcement of the fulfillment of the vacation usage target, the provision for vacations was reduced.

Training

The Bank conducts training sessions and professional training workshops for its employees on a routine basis in accordance with the employee's position and the Bank's requirements.

In 2016, training at the Bank focused on training the staff of branches, call center and back end staff to support the business objectives which were established by bank management. Training sessions in the core segment included, inter alia, training on checking accounts, consumer credit, mortgage training and specific training for credit officers. The Bank continues to conduct training sessions for the bankers employed in the call center, and for video conference bankers, while providing knowledge on various professional subjects, as well as personal skills in the fields of service and sales. In 2016, workshops were held for the bankers in the branches, in order to implement a service culture and work routines in order to improve the service provided to the Bank's customers. In addition to the above, training sessions were provided in the risk management channel (regarding money laundering, operational risks, management of controls and arrears, compliance and administrative enforcement), as well as training regarding the application of FATCA legislative provisions and training with respect to information security.

In 2016, monthly training was provided for branch training supervisors and to the training supervisors for back end staff, regarding professional updates and ongoing training. The implementation of updates through the training supervisors was intended to accelerate the implementation of new work processes among the staff of the branches and the back end staff.

In 2016, the Bank conducted 1,471 training days, as compared with 834 training days in 2015. The increase was due to the launch of a comprehensive training plan on the subject of service to bankers in the branches, from the launch of a manager's development track and the expansion of the training sessions department on the subject of consumer credit and mortgages.

Remuneration policy

For details regarding the remuneration policy for corporate officers, the remuneration policy for employees and key employees who are not corporate officers, the entities which oversee remuneration in the Bank, planning and structure of the remuneration processes, description of the methods used to take into account current and future risks in the remuneration process, and the connection between performance during the performance measurement period and remuneration levels, see Note 23 to the financial statements.

In 2016, the Remuneration Committee convened 18 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 202 thousand.

Presented below are details regarding the amounts of remuneration to corporate officers with respect to the reporting year (in thousands of NIS):

	Corporate officers		Other key employees	
Total value of remuneration with respect to the reporting year	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Cash-based	12,254	-	638	-
Variable remuneration				
Cash-based	150	-	-	-

Description	Corporate officers		Other key employees	
	Number of	Amount	Number of	Amount
1 **Remuneration paid**				
A. Number of employees who received variable remuneration during the reporting year	6	-	-	-
B. Number and total of guaranteed bonuses granted during the reporting year	9	150	-	-
2 **Deferred remuneration**				
A. Total balance of unpaid deferred remuneration (in cash):	5	465	-	-
B. Total deferred remuneration paid during the reporting year	-	-	-	-
3. Total unpaid sum of the balance of deferred remuneration and held remuneration which is exposed to retrospective adjustments, either explicit and/or implicit.	4	460	-	-

No bonuses had been given as of the signing date, and no severance pay was paid during the reporting year.

For details regarding the remuneration program for the CEO and Chairman, see Note 34 to the financial statements.

Description of employment agreements

In December 2015, several collective arrangements were signed between bank management and the Bank's employees' committee, which formalized most of the employment terms for all of the Bank's employees, excluding corporate officers and key employees. The collective arrangements were signed for a period of four years, until December 31, 2019.

Approximately 58% of the Bank's employees are employed through personal employment agreements which define the terms of their employment in the Bank, in addition to the arrangements set forth in the collective arrangements. Once per year, an update to their employment terms is evaluated, in accordance with the employee's differential contribution to the Bank, and in accordance with managers' recommendations. The personal employment agreements are signed separately with each employee, in accordance with the salary and the social benefits arrangement which were specifically agreed with them.

The employment terms of approximately 42% of the Bank's employees are set forth in an agreement which was signed with the employees' committee in the Bank, which defines their employment terms and their salary promotions (ranked employee agreement). In addition to the terms set forth in the collective arrangements, the agreement is updated once every two years, with the consent of the employees' committee, as set forth in a written addendum which is signed between management and the employees' committee. This update includes salary additions over the base salary and associated benefits, and takes into account the rate of increase of the consumer price index for the period relevant to the update. Additionally, the Bank holds, once per year, personal ranking discussions for the aforementioned employees, in accordance with each employee's differential contribution to the Bank, and according to the managers' recommendations.

Retirement arrangements - the retirement terms of the Bank's employees were formalized in the aforementioned collective arrangements. Employees of the subsidiary are employed in accordance with the Bank's employment agreements.

Additionally, the Bank and its subsidiary acquire the services of manpower companies, software houses and other specialized companies (see details regarding employees through "outsourcing", in the table presented above).

For additional details, see Note 23 to the financial statements.

Development of human resources

The Bank focuses on value-based investment in its employees, along with the development of employees and human capital.

Aside from structured internal training sessions, which focus on the Bank's core business areas and the risk management segment, the Bank also encourages its employees to attend academic studies in areas which are associated with their specializations. The Bank also sends it employees to attend continuing education programs, one-day seminars and professional conferences which are associated with the fields of banking.

The Bank conducts management training courses as needed and in accordance with the available promotion courses. In 2016, the branch managers underwent a comprehensive manager development course. Additionally, managers in various ranks of management in headquarters and in the branches received personalized training sessions in order to improve management skills and to help them face the managerial challenges which they face management their routine work.

The Bank is currently accepting primarily academic employees, and as of the end of 2016, the Bank employees 65% academic employees, of which 28% hold a Master's degree, and 3% are studying for their Master's degree. The rate of employees with a post-secondary education, out of the Bank's total employees, amounts to 11%, while the rate of employees studying for a Bachelor's degree amounts to 1%.

The Bank encourages mutual responsibility among its employees, and has established a joint fund between the Bank and its employees, to support employees who are in financial distress situations.

Corporate officers and authorized signatories

As of December 31, 2016, 11 corporate officers are serving in the Bank (who are not directors), through personal contracts. The Bank has 206 authorized signatories: 98 in the branches, and 108 in headquarters. For additional details regarding the retirement of corporate officers during the reporting period, see the chapter regarding corporate officers above.

Significant agreements

For a summary description of the significant agreements which are outside of the Bank's ordinary course of business, and regarding collaboration agreements which are relevant to the operating segments, which were signed and/or which are in effect during the reporting year, see the details provided regarding each segment.

Legislative and oversight restrictions which apply to the Bank

The Bank has a banking license in accordance with section 10 of the Banking Law (Licensing), 5741- 1981. In accordance with the Bank's license, it is subject to the following restrictions: the Bank will not control and will not be an interested party in corporations of any kind whatsoever, in Israel or abroad, excluding auxiliary corporations, without the Commissioner's approval, for a certain corporation or for a certain type of corporation. The above will not apply to corporations which the Bank lawfully held prior to the provision of the license, and where the holding is in accordance with the determined conditions.

Additionally, in accordance with the Bank's license, the appointment of the Chairman of the Board of Directors and the CEO require advance written approval from the Commissioner of Banks.

It is hereby clarified that the requirements of the license regarding the control of auxiliary corporations and the approval for the tenure of the Chairman and CEO are requirements which are currently included in the banking legislation, and which refer to all banking corporations.

According to the directive issued by the Bank of Israel to the Bank, the Bank is entitled to perform option and swap transactions between currencies or interest rates only for hedging purposes. Transactions which are not for hedging purposes will require advance approval from the Bank of Israel.

Licenses for the activities of subsidiaries

Ir Shalem, a wholly owned and controlled subsidiary of the Bank, has an insurance agent corporation license in accordance with the Control of Financial Services Law (Insurance), 5741-1981. In accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, Ir Shalem is entitled to engage only in the marketing of life insurance policies and structural insurance policies, as part of housing loans which are given by the Bank (this restriction does not apply with respect to insurance which was prepared before January 1, 2006).

Restrictions on legislation, standardization, directives and special constraints

The Bank is a commercial bank, whose securities are traded on the Tel Aviv Stock Exchange Ltd., and which is a member company of the Tel Aviv Stock Exchange Ltd., a member of the Stock Exchange Clearing House and the Maof Clearing House, and is therefore subject to all of the relevant laws.

The Bank's activities are subject to laws, regulations and directives, some of which are unique to the banking system, while others, which, even if they are not unique, as stated above, do affect significant segments of its operations. The Banking Ordinance, various banking laws and Proper Banking Management Directives which are published by the Commissioner of Banks from time to time constitute the primary and legal basis for the Bank's activities. These define, inter alia, the limits of the Bank's permitted activities, the relationship between the Bank and its customers, the use of the Bank's assets, the method for reporting regarding its aforementioned activities to the Commissioner of Banks and to the public, and the activities which are permitted for the Bank's subsidiaries, and the terms of their control and ownership.

Along with the above, the Bank is subject to extensive legislation which regulates its activities in the capital market, both for its customers and for itself (for example, in the field of investment consulting and customer portfolio management, securities laws and restrictions on activities in the insurance segment), and to the guidelines issued by the Ministry of Finance which regulate the Bank's activities as a market maker with government bonds.

The fees charged by banks, including the Bank of Jerusalem, are overseen by the Bank of Israel. Additionally, the Bank of Israel has determined tariff schedules, in which are specified the services for which banks will be entitled to collect fees, as well as the method used to calculate such fees.

Additional laws, on unique subjects, impose on the banks, including on the Bank, specific obligations and rules. The above includes, for example, legislation regarding the prohibition against money laundering and terrorism financing; The Credit Data Law, legislation regarding housing loans, laws regarding guarantees, etc.

In addition to the above, there is also legislation which, due to its connection to the Bank's activities, has a significant impact on the Bank's conduct. On this matter, it should be noted that enforcement laws, liquidation and receivership laws, and various tax laws are relevant.

The Bank's activities are subject to supervision and control by the Banking Supervision Department, and by additional supervised entities in specific operating segments, such as the Israel Securities Authority, the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance and the Antitrust Commissioner.

The Bank and its subsidiaries operate in compliance with the duties which apply to them by virtue of provisions of the law.

As part of the legislation, some of the laws which apply to the banks activities include the option to impose on it financial sanctions with respect to breaches of provisions of the law and of the provisions of secondary legislation (including circulars and directives), which have been issued, or which may be issued, by virtue thereof.

Presented below is a summary description of legislative amendments (including directives issued by the Commissioner of Banks) which are relevant to the reporting period, and which significantly affect, or may significantly affect, the Bank's activities.

American legislation

In 2011, The Foreign Account Tax Compliance Act (FATCA) was enacted in the United States, according to which financial institutions from around the world are required to identify all of their American customers, and to submit reports regarding the data of these customers to the IRS. In January 2013, the final version of regulations on the subject was published, which entered into effect on July 1, 2014.

The Bank is adopting the provisions of the law and the directives issued by the Commissioner of Banks, including registering the Bank on the IRS website. On July 1, 2014, an agreement was signed between the State of Israel and the U.S. Department of the Treasury regarding the implementation of the provisions of FATCA, which regulates the transfer of information regarding accounts which are held in Israel by citizens or residents of the United States to tax authorities in the United States, through the Israel Tax Authority (hereinafter: the "FATCA Agreement").

On July 12, 2016, the Knesset passed an amendment to the Income Tax Ordinance (No. 227), 5776-2016, with authorized, inter alia, the Minister of Finance to set forth in regulations reporting requirements which apply to financial institutions, in a manner which allows the implementation of the FATCA agreement.

On August 1, 2016, the Knesset Finance Committee approved the Income Tax Regulations (Implementation of FATCA Agreement), 5776-2016. The regulations formalize the method for identification of customers who will be included in the reports to the Tax Authority, the dates for the performance of reports, and additional obligations in connection with the process of implementing the inter-state agreement which was signed between the State of Israel and the United States. presented below are the main terms of the updates, as compared with the IGA, which exist in the regulations:

- An obligation to record an Israeli financial institution was added, also on the website of the Israel Tax Authority.
- A financial institution with no reportable accounts was given a deferral for submission of the report with respect to the years 2014-2015, until December 31, 2016.
- An obligation was added to report regarding accounts with respect to which a real concern has arisen in the financial institution that activity was performed therein which was intended to bypass the identification and reporting obligations which were set forth in these regulations.
- A section was added which requires the Bank to give notice to the customer regarding the transfer of information to and from the manager to the American tax authorities. The notice may be sent to the postal address or to the email address.
- A section was added which requires a reporting Israeli financial institution to implement policies which ensure the identification of any change in the circumstances of the account, including indications related to the United States, and with respect to accounts with high value, and to implement policies which ensure that the customer relations manager will identify any change in the circumstances of the account.
- It was determined that a reporting Israeli financial institution will not rely on self-documentation or on documentation evidence which it knows, or has reason to know, to be incorrect or unreliable.

Application of the regulations - immediate. The Bank adjusted its policies according to the provisions of the regulations.

The first reports by financial institutions in Israel to the Tax Authority were issued in September 2016, with respect to the end of the year balances in reportable accounts for the years 2014 and 2015.

The Bank submitted the information to the tax authorities in Israel in accordance with the provisions of the law and the regulations, and is applying the provisions of the FATCA.

In accordance with the Bank's policy, the Bank refrains from providing any advice or assistance on the subject of taxation, including any advice related to the manner in which the account is identified as American, or in connection with American taxation, including any advice whatsoever regarding FATCA.

Additionally, in light of the existing legislation in the United States, financial institutions which do not hold an appropriate American license are restricted against providing the entire array of services involving securities to customers who are residents of the United States. Therefore, Bank of Jerusalem is required to provide services involving securities to its customers who are residents of the United States, only in accordance with the directives set forth in American legislation on the matter.

Standards For Automatic Exchange of Financial Account Information – OECD

The OECD published Standards For Automatic Exchange of Financial Account Information (hereinafter: the "Standard"). This standard was created in the spirit of the American FATCA, and is intended to increase transparency and oversight on the tax reports of residents of OECD countries. The aforementioned standard is comprised of the CRS model, which imposes reporting and identification obligations on financial institutions with respect to accounts which are maintained by them, and of the CAA model, which constitutes the basis for the legal agreements which will be signed between the countries for this purpose. On July 21, 2014, the OECD published a guide for the implementation of the standard.

On November 24, 2015, Israel joined the multilateral treat regarding mutual administrative assistance on tax matters. On May 13, 2016, the General Director of the Tax Authority signed on Israel's addition to the agreement of competent authorities for the implementation of the multilateral treaty regarding automatic exchange of financial information, and for the implementation of the multilateral treaty regarding inter-country reporting.

The aforementioned agreement and standard formalize, inter alia, the types of information which the countries will transfer, the information transfer date, and the financial entities which will be subject to the obligation to transfer information to the tax authorities. The application date of the agreement and the standard are in January 2017, and the first report by the State of Israel is expected to be in September 2018.

For the purpose of implementing the standard, on November 26, 2015, the Law in Amendment of the Income Tax Ordinance (No. 207) was enacted, which authorized the Ministry of Finance to sign the agreements with the other countries, to require the financial entities to transfer the information to the Tax Authority, and for itself to transfer the information to the relevant countries.

In January 2017, the Draft Income Tax Regulations (Implementation of Uniform Standard Regarding Reporting and Due Diligence With Respect to Information Regarding Financial Accounts), 5767-2017, was passed, which formalized the obligations which apply to the financial institution with respect to the implementation of the provisions of the standard.

Bank of Jerusalem is preparing to comply with the requirements of the standard regarding automatic exchange of information, and is studying the draft regulations on the matter.

Letter of the Commissioner of Banks regarding the management of risks due to cross-border activities of customers

On March 16, 2015, the Commissioner of Banks published a letter regarding the management of risks due to cross-border activities of customers. The letter was published in light of the enactment of FATCA and in light of the regulations published by the OECD, which apply standards for inter-country information transfers on tax subjects, and which impose and/or may impose in the future various obligations on financial institutions around the world, including, inter alia, obligations regarding due disclosure and reporting requirements, and also in light of the adoption of the aforementioned standards by the State of Israel.

The main provisions of the directive are as follows:

A. The banking corporation's Board of Directors must evaluate and update its policy, and verify that management updates its policies and controls accordingly, with respect to the risks which are inherent to cross-borders activities of the banking corporation's customers, with an emphasis on tax liabilities outside of the country where the account was opened, regardless of whether or not the customer is a resident of that country, according to a risk-based approach, including reference to the points specified in the letter.

B. In the provision of banking services to customers who are subject to the FATCA provisions, banking corporations are required to work to implement them further to that stated in the Commissioner's letter dated April 6, 2014.

C. Refusal to provide banking services for an existing account, and refusal to open an account, with respect to customers who do not cooperate with the banking corporation in the manner which is required in order to implement the corporation's policy and procedures with respect to cross border risk, will be considered reasonable refusal for the purpose of the Banking Law (Customer Service), 5741-1981:

The circular enters into effect on the its date of publication, and in parallel, the Bank is required to complete the optimization of documents of customers to which the circular applies by the end of 2016 (or, for customers classified as "high risk" - by the end of 2015).

The Bank is implementing the Commissioner's directives.

Legislative updates and directives issued by the Bank of Israel

The legislative updates and/or directives issued by the Bank of Israel, which are specific to the various operating segments, were described in the relevant chapters of this report. Additionally, provisions of the law and regulation which were received until the publication date of the Bank's annual report for 2015 were described in the Bank's financial reports for 2015.

Letter from the Bank of Israel regarding the management of risks associated with the operation of a voluntary disclosure programs in Israel

On January 26, 2016, the Commissioner of Banks published a letter to the banking corporations regarding the management of risks associated with the operation of a voluntary disclosure programs in Israel. In this letter, the Commissioner of Banks called the banks' attention to the fact that also in cases where an individual has acted vis-à-vis the Tax Authority in accordance with a voluntary disclosure program, this in itself does not suffice to protect them from arraignment with respect to crimes which do not involve concealment of income. In light of the foregoing, the Bank is required:

To update its policies and procedures, and to inform its employees regarding the above, and regarding the fact that the presentation of approval from the Tax Authority by the client does not constitute authorization of the legitimate source of the funds for the purpose of the prohibition on money laundering.

To evaluate which tests from the Second Addendum to the Prohibition on Money Laundering Order may be relevant with respect to reports regarding irregular activity.

To formalize in policies a prohibition on the receipt of electronic transfers from abroad, as part of a voluntary disclosure process, which do not include details of the transferor or transferee.

To inform the Bank of Israel, in writing, within 60 days, regarding the steps which it has taken or implement the aforementioned requirements.

The Bank is implementing the provisions of the letter.

Letter from the Bank of Israel regarding increased operational efficiency of the banking system in Israel.

On January 12, 2016, the Commissioner of Banks published a letter to the banking corporations regarding increased operational efficiency of the banking system in Israel. In the letter, the Commissioner expressed her position, according to which the level of efficiency in banks is low relative to banking systems in other developed countries, and therefore, she views increased efficiency measures as an important step towards ensuring the banks' stability. In light of the foregoing, the Bank's Board of Directors is required to outline a multi-annual increased efficiency plan, including defined interim goals, which will reflect the long term commitment to efficiency at a level which is appropriate for the current economic environment. The Banking Supervision Department intends to define a periodic reporting framework, and to approve easements regarding capital adequacy for banks which fulfill the conditions specified in the letter, provided that they approve an increased efficiency plan by December 31, 2016.

The Bank's Board of Directors approved an increased efficiency and reporting plan and reported the matter to the Banking Supervision Department.

The Remuneration for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Remuneration), 5776-2016

On April 12, 2016, The Remuneration for Corporate Officers in Financial Corporations Law was published, which determined cumulative restrictions on remuneration for corporate officers and other employees in financial corporations, as specified below:

The law establishes a strict procedure for the approval of annual remuneration to an employee of the Bank in an amount exceeding a total of NIS 2.5 million, and established that, for the purpose of calculating the Bank's taxable income, deductions will not be permitted with respect to a cost of salary which exceeds the "adjusted threshold", which is derived from the amount specified in this section.

In any case, the Bank's engagement with an employee will not be approved unless the condition the ratio between the expected expense with respect to the payment of salary to the employee in a certain year does not exceed 35 times the projected expense with respect to the lower remuneration which was paid to any employee of the Bank (including employees of manpower companies) during that same year.

This Law will apply to any remuneration to an employee of the Bank which has been approved beginning on the publication date of the law, and with respect to existing remuneration - the provisions of the law will apply after six months have passed since the publication date.

The aforementioned law does not affect the past rights of employees of Bank of Jerusalem, but does restrict the payment of remuneration to current and future employees of the Bank. Accordingly, the Bank adopted its provisions in the remuneration policy for corporate officers for the years 2017- 2019, and with respect to the terms of tenure and employment of the Bank's CEO. For details, see Notes 23 and 34 to the financial statements.

Amendment No. 14 to the Prohibition on Money Laundering Law

On April 7, 2016, Amendment No. 14 to the Prohibition on Money Laundering Law was published, which determines that severe tax offenses will be recognized as predicate offenses in accordance with the Prohibition on Money Laundering Law, and will be subject to the sanctions prescribed in that law, including stricter punishment (up to ten years in prison) and the possibility of seizing property.

It was further determined in the amendment to the law that the investigation authorities of the Tax Authority will be expanded, and that information may be submitted directly from the Israel Prohibition of Money Laundering and Financing of Terrorism Authority to the Tax Authority. The law will enter into effect half a year after the date of its publication in the Official Gazette. The Bank is operating in accordance with the provisions of the amendment. This provision has no significant influence on the Bank.

The Credit Data Law, 5776-2016

On April 12, 2016, the Credit Data Law, 5776-2016, was published, which created a comprehensive arrangement with respect to the sharing of credit information which is concentrated, inter alia, in the banks. The concentration of data will be performed by the Bank of Israel, which will maintain the database.

In accordance with the law, any entity which provides credit or provides agency services for credit transactions, including, of course, the banks, as well as a list of additional entities (such as the Enforcement Authority, the Postal Bank, the Electric Corporation, and others) are required to transfer information to the Bank of Israel regarding customers. The scope of information which the various entities are required to transfer is very broad, and includes credit facilities, fulfillment of non-fulfillment of the customer's liabilities to that entity, etc. The law also formalizes the circumstances and the manner in which information may be obtained from this database.

The application date of this law was determined, in principle, as 30 months after the date of its publication, subject to changes in the discretion of the Bank of Israel, and provided that standards will be set in place for the purpose of its implementation.

Until the law enters into effect, the banks will be required to continue transferring information to the current license holders, in accordance with the Credit Service Providers Law. Once the new law enters into effect, the Credit Service Providers Law will be canceled.

The Bank is preparing to implement the provisions of the law.

Transitional provision issued by the Commissioner regarding the sharing of credit information with respect to the maintenance of information for the purpose of submitting to the credit database

Further to the publication of the Credit Data Law, and for the purpose of implementing this law, on June 22, 2016, the Commissioner of Credit Data Sharing at the Bank of Israel issued a transitional provision on the subject of "maintenance of information for the purpose of submission to the credit database".

This provision is updated from time to time in order to provide solutions to questions which arise from the banks, and its final version has not yet been determined.

This provision formalizes the obligation and manner of maintenance of customer credit information by a banking corporation, in order to submit it to the credit database.

Accordingly, the Bank is required to maintain, in its systems, a database which contains the information regarding transactions and customers associated with those transactions, in accordance with the fields which were specified in the provision.

According to the provision, the banking system is required to complete, by July 6, 2017, the collection and maintenance of information in the database, with respect to the last business day of each month, for the period from May 2016 to June 2017.

On November 3, 2016, the Bank of Israel gave its verbal approval for the provision of an extension to Bank of Jerusalem regarding the implementation of the provision in accordance with the timetable which was agreed upon between the Bank and the Bank of Israel.

The Bank is working to implement the directive.

Proper Bank Management Directive 367, on the subject of remote banking

On July 21, 2016, Proper Banking Management Directive 367 was published, on the subject of remote banking, which removed the main barriers against the performance of remote banking activities. This provision allows the Bank to offer customers:

To open new accounts remotely, with no need to arrive at a branch.

To join banking services remotely and online (for existing customers only).

To perform transfers and payments online, and to define permanent beneficiaries without coming to a branch.

To update their personal details, such as name and address, and to receive an initial password online.

To receive information summary services in the Bank which will be chosen by the customer, with reference to all of the banks and credit card companies in which the customer has accounts. It is noted that the provision of the service cannot be made conditional on the customer's consent that the Bank will make use of the aforementioned information.

As an inseparable part of the aforementioned easements, the provision imposes increased responsibility on the banks with respect to the management of the risks which are associated with the expansion of the Bank's remote activities, inter alia, by the following means: Strong means of identification and authentication for high risk activities, addition of controls, monitoring of exceptional activities and sending of alerts, and customer training to increase awareness of the risks which are associated with such activity.

The directive enters into effect on January 1, 2017. The Bank is implementing the provisions of the directive.

Amendment to Proper Bank Management Directive 420, on the subject of "notices sent remotely"

On July 25, 2016, an amendment was published to Proper Banking Management Directive 420. The amendment allows banking corporations to provide notices and order documents to customers for the performance of transactions by electronic means, instead of physically presenting at a branch. The foregoing is subject to the restrictions specified in the directive. Additionally, the banks were given the possibility to offer alert services to customers, by SMS and email, in order to assist them in managing their account in an informed manner.

Application of the directive - upon its publication, excluding the section pertaining to special notices (alert after 5 checks have bounced, alerts in case of a restriction or seizing of the account, etc.), which will enter into effect, for the most part, on April 1, 2017. The Bank is preparing to implement the directive.

Amendment to the Banking Rules (Customer Service)(Fees)(Amendment), 5776 - 2016.

On July 19, 2016, an amendment was published to the Banking Rules (Customer Service)(Fees)(Amendment), 5776 - 2016, which determined as follows:

1. With respect to the production or printing of documents which are maintained in the computerized database, at the customer's request, or upon a request for information initiated remotely by the customer. The Bank is not permitted to collect fees with respect to the submission of one copy of the notice at the customer's request, during the six month period following the closure of the account; for this purpose, "notice" means notice sent remotely to customers by virtue of law, during the six month period which preceded the closure of the account.

2. Recommendation letters will not be included in the reports at the customer's request, but rather in the reports which are associated with the collection of information, and therefore, the fee which may be collected with respect to it is the fee which may be collected with respect to reports associated with the collection of information.

3. The fee which may be collected with respect to changes to the monthly repayment date of a monthly, in accordance with section 9C of the Banking Law (Customer Service), 5741-1981, to an amount which does not exceed the service price of one clerk action for each loan, with respect to each of the first four changes in any year.

The impact of the implementation of these sections on the Bank's revenue is immaterial.

The amendment also determines that if fees were collected from a customer who is a senior citizen, or a person with disabilities, with respect to actions performed by a clerk or actions through the direct channel, in an amount exceeding the price of the basic track, in any month during the period of one fiscal year, the Bank will attach it to the basic track, by March 1 of the subsequent year. Due to the fact that the Bank's customers are exempt from checking fees, and the Bank does not manage track plans, the aforementioned amendment is irrelevant to the Bank at this stage.

The Banking Ordinance (Customer Service) (Oversight of Standard Reports Service at the Customer's Request), 5776-2016

On July 19, 2016, the Banking Ordinance (Customer Service) (Oversight of Standard Reports Service at the Customer's Request), 5776-2016 was published, which determined that a standard reports service at the customer's request constitutes a supervised service. The maximum fee amount which may be collected with respect to this service amounts to a total of NIS 15 per report. This provision has no significant influence on the Bank

Amendment to Proper Bank Management Directive 403, on the subject of non-banking benefits to customers

On July 11, 2016, an amendment was published to Proper Banking Management Directive 403, which is intended to expand the possibilities which are available to banking corporations to provide non-banking benefits to their customers through the customer's routine conduct in the account. The amendment is intended to improve customer experience in connection with the Bank, to promote digital banking and to encourage proper conduct in the account. The directive entered into effect on the date of its publication. The Bank updated its policies in accordance with the provisions of the amendment to the directive. This directive has no significant influence on the Bank.

Amendment to the Banking Law (Licensing) on the subject closure of branches.

On August 16, 2016, Amendment No. 22 to the Banking Law (Licensing) was published, according to which a banking corporation which wishes to close a fixed branch is required to obtain advance approval for this purpose from the Commissioner of Banks. The Commissioner is entitled to place conditions on the closing of the branch, including, inter alia, to defer the requested date for the closing of the branch. It was further determined that, will approve the Commissioner approves the closure of a branch, the Bank will notify its customers of the matter at least 60 days in advance. Application of the amendment - from the date of its publication. The Bank updated its policies in accordance with the provisions of the amendment. This directive has no significant influence on the Bank.

Amendment to Proper Banking Management Directive 454 - early repayment of non-housing loan

On July 11, 2016, the Commissioner of Banks published an amendment to Proper Banking Management Directive 454, which determined, inter alia, that the banking corporation is required to submit an explanatory document to the borrower, proximate to the date of engagement in the loan agreement, or the framework agreement, as applicable, and proximate to the borrower's request to perform an early repayment of its loan.

In the explanation page, it is necessary to present the early repayment fees as of the production date of the page. In cases where the customer is given a full or partial exemption from the payment of the aforementioned fees, the Bank is required submit a brief explanatory page, containing a brief explanation, including the explanation which is relevant to them. With the aim of improving the content of the explanatory document, it was determined that, instead of presenting the discounting component formula and the method used to calculate it in the explanation document, the Bank is required to include, on this page, reference to the Bank's website, in which the discount component and the calculation method will be clearly presented. The Bank is required to send to each interested customer the discount component formula and the calculation method, according to its conventional means of sending notices to its customers, or by any other conventional means chosen by the customer.

The Bank is implementing this directive. This provision has no significant influence on the Bank.

Proper Bank Management Directive 436, on the subject of an effort to identify accounts without movement and accounts of deceased persons

On September 12, 2016, Proper Banking Management Directive 436 was published, which regulates the initiative of the Bank of Israel to identify deposits without movement and accounts of deceased persons in banks.

In accordance with the Proper Banking Management Directive, the banks are required to present, on their websites, reference to a designated page which regulates public appeals on this matter, and specifies the ways by which the Bank may be contacted for the receipt of information on the matter, and the documents which the requestor may be required to present to the Bank for the purpose of receiving information or funds. The Bank is required to appoint a designated entity to handle these inquiries, and to establish in its policies the processes for authentication which are required in order to receive information and/or funds from the Bank. Application of the directive - immediate.

The Bank is implementing this directive. This directive has no significant influence on the Bank.

The Control of Financial Services Law (Orderly Financial Services), 5776-2016.

On August 1, 2016, the Control of Financial Services Law (Orderly Financial Services), 5776-2016 was published, which is intended to develop the extra-institutional financial services branch, and to establish an alternative to the banking system in the field. The law determined, for the first time, a comprehensive framework for the regulation of the extra-banking and extra-institutional credit market in Israel, and significantly expanded the market for the provision of currency services.

Presented below are the main principles of the law:

- A comprehensive regulatory regime was established with respect to the provision of extra-banking and extra-institutional credit, which will apply to entities which are engaged in the provision of credit, which are not subject to oversight by another regulator.
- The role of Commissioner of Financial Services was established, in whom were vested extensive

authorities of regulation, oversight, enforcement and administrative investigation, including the imposition of financial sanctions.

- The oversight with respect to the provision of currency services was significantly expanded, and a comprehensive regulatory regime was applied in this field as well.
- The definition of "credit provision" in the law is very broad, and includes, inter alia, the credit facility credit facilities, deduction services, credit provision by way of financing of acquisition or rental, and provision of guarantees for the liability of another.
- The definition of "financial assets" was expanded to include also prepaid cards and virtual currencies.
- Licensing requirements were set forth, both with respect to service providers regarding a financial asset, and with respect to credit providers according to their scopes of activity, as well as minimum equity requirements, corporate governance requirements and reporting requirements which will apply to license holders.
- Controlling shareholders and interested parties are required to receive a permit for control or holding of means of control from the Commissioner.

The Law will enter into effect on June 1, 2017, and with respect to those engaged in the provision of service for a financial asset - on June 1, 2018.

This provision has no significant influence on the Bank

Preparations for the management of compliance risks in light of the determination of tax offenses as predicate offenses

On November 23, 2016, the Banking Supervision Department published a letter on the subject preparation for the management of compliance risk in light of the determination of tax offenses as predicate offenses. In accordance with the letter, all of the provisions with respect to the prohibition on money laundering which apply to banking corporations will also apply, from now on, to the performance of tax offenses by the customer, and particularly, the provisions pertaining to the "know your customer" process, controls, monitoring and identification of extraordinary activities. In accordance with the letter, the managements of banking corporations are required to evaluate the required changes to policy, to risk assessment and to procedures, to update the controls and the training systems, and more, and the board of directors is required to discuss and approve the policy and risk assessment. The letter also specifies a list of "red flags" - activity patterns which may indicate the performance tax offenses by customers, which the Bank is required to identify, and to request explanations from the customers regarding them, and, if necessary - to refuse to perform them. The letter entered into effect on December 31, 2016. The Bank is implementing the provisions of the letter.

Proposed Law to Increase Competition and Reduce Concentration in the Israeli Banking Industry (Legislative Amendments), 5776- 2016

On January 31, 2017, the Law to Increase Competition and Reduce Concentration in the Banking Industry in Israel (Legislative Amendments), 5777-2017, was published.

The law sets forth in legislation the recommendations of the committee to increased competition in common banking and financial services, which was established on June 3, 2015 (the "Strum Committee"), with the aim of removing barriers which currently exist in the banking system, to create new and independent players who can compete in the current banking system, and to encourage competition in the market of banking and financial services for the retail segment.

The main provisions of the law are as follows:

1. The two large banks are required to sell their holdings in the credit card companies which they own within three years after the publication date of the law.
2. The holding rates of the banks in Automatic Bank Services Ltd. will be reduced, such that an entity will not control and will not hold an operator of more than 10% of a certain type of means of control.
3. "Banks with an extensive scope of activity" are obligated to reduce by 50% the total credit facilities in its customers' credit cards, excluding credit facilities credit facilities of less than 5,000.
4. A bank will not unreasonably refuse, at the customer's request, to pledge, by means of a second priority pledge, in favor of another creditor which is not the Bank, an asset which is pledged to secure credit which that customer received from the Bank.
5. Two additional areas of activity will be added, in which the Bank is permitted to engage: sale of IT and operation services which primarily serve the Bank, and the rental of land which is used by the Bank for the purpose of IT and operations, to a lessee who will make use of the land for that purpose.
6. In light of the fact that IT services constitute a barrier to entry for new banks, it was determined that the banks will be required to sell IT services to new banks.
7. Provisions were established regarding hosted clearing service providers, according to which existing clearing service providers will be required to engage with new clearing service providers, in a manner which will allow them to perform clearing services for businesses through it.
8. A (read only) technological interface will be created, which will allow companies to collect, with the consent their customers, information regarding the interest rates and fees which those customers pay to the banks, in order to offer to them more competitive alternatives in other banks. As part of the creation of this interface, the banks will be obligated to submit data regarding their customers to those entities.
9. A bank which issues debit cards, which, on the application date, held means of control of a debit card company, is obligated to operate the issuance of such cards through an operating company, and to allow it to be party to the debit card agreement. Additionally, beginning from two years to five years after the publication date of the law, the Bank will not operate more than 52% of the issuance of credit cards its customers through a single operating company.
10. An advisory committee will be established to monitor the implementation of the provisions of this law.
11. There are several sections in the law whose breach may expose the Bank to criminal sanctions, for example: non-transfer of information by the Bank to the aforementioned external entities.

The Bank is currently evaluating the implications of the proposed legislation on its activities. Some of part of are the provisions of the law increase competition in the banking market, and may constitute an opportunity for the Bank.

Provisions of Proper Banking Management Directive 450, on the subject of customer debt collection

On February 1, 2017, a Proper Banking Management Directive was published on the subject of debt collection proceedings, which is intended to increase fairness and transparency in processes involving the collection of debt from the customer by the Bank.

The Proper Banking Management Directive included the formalization of various issues, including:

Creation of a function specialized in the handling of debt collection, whose authorities and functions will be determined by the Board of Directors and management;

An obligation to disclose the formula for the calculation of interest in arrears and the linkage mechanism already in the customer's loan agreement with the Bank, while determining a maximum limit for such interest in arrears.

An obligation was imposed on the Bank to provide information to the customer regarding its accounts, also when it is undergoing legal proceedings vis-à-vis the Bank; as well as an obligation to send notices which will include the information which the customer requires with respect to its debt, and an obligation to update the Enforcement Authority regarding changes to the borrower's situation, within 7 days, and on the other hand, an obligation to update the customer regarding its status in the Enforcement Authority - without collecting a fee.

In parallel, the Bank is required to oversee and maintain controls over the Bank's representatives who have been tasked with initiating collection proceedings (law firms), including an external audit of their activities, once every 3 years.

Legal expenses will be collected from the customer only after the ruling has been given, and in accordance with the determination of the Court.

The directive enters into effect immediately. The Bank is adjusting its conduct according to the provisions of the Proper Banking Management Directive.

Description of the banking corporation's business by supervised operating segments

Summary description of operating segments

In accordance with the circular issued by the Banking Supervision Department on November 3, 2014, beginning with the annual report for 2015, the report regarding operating segments is prepared in accordance with the framework and classifications which were determined in the public reporting regulations of the Banking Supervision Department.

The Bank operates through the Bank's headquarters, branches and subsidiaries, and provides a variety of banking services through five main operating segments. The Bank's operating segments have been classified in accordance with the directives issued by the Commissioner of Banks, according to the types of customers which are included in each of the segments, and do not necessarily correspond to the Bank's organizational structure.

The approach of management to the segmentation of the Bank's activities is not significantly different than the approach to the segmentation of supervised segments, as described below:

- **Household segment** - the customers of this segment are private individuals (excluding those who are included in the private banking segment).
- **Private banking segment** - The customers of this segment are private individuals who have a balance in the financial assets portfolio exceeding NIS 3 million.
- **Business segment** - the customers of this segment are business customers, construction companies, contractors and real estate companies, corporations and associations.
- **Institutional segment** - the customers of this segment include stock exchange member companies which manage customer funds, insurance companies and other institutional entities.
- **Financial management segment** - the segment includes the Bank's nostro activity and the Bank's assets and liabilities management activity.

For details regarding the main principles which were applied in the division of the results of operations among the various segments, see Note 29 to the financial statements.

Presented below are details regarding the average balances of assets and liabilities which were used in operating segments:

	Assets			Liability		
	2016	2015	Change	2016	2015	Change
Segments	NIS millions		%	NIS millions		%
Households	8,323.6	7,937.0	5	6,866.5	7,032.9	(2)
Private banking	6.6	4.7	40	1,583.5	1,631.5	(3)
Small and micro businesses	1,350.1	1,130.0	19	808.6	1,134.3	(29)
Medium and large businesses *	595.6	795.3	(25)	376.1	341.6	10
Institutional entities	41.4	6.8	509	1,407.2	1,143.2	23
Financial management	3,873.0	4,105.9	(6)	2,348.8	1,922.7	22
Total	**14,190.3**	**13,979.7**	**2**	**13,390.7**	**13,206.2**	**1**

Presented below are details regarding net profit (loss) by operating segments:

	For the year ended December 31		
	2016	2015	Change
Segments	NIS millions		%
Households	8.7	(0.4)	-
Private banking	(3.4)	(3.4)	-
Small and micro businesses	21.1	22.2	(5)
Medium and large businesses *	7.0	10.7	(35)
Institutional entities	(8.6)	(5.8)	48
Financial management segment	30.8	21.4	43
Unallocated amounts (sale of structure)	-	3.9	-
Total	**55.6**	**48.6**	**14**

Presented below is the average number of direct positions attributed to the operating segments:

	2016	2015
Segments	NIS millions	
Households	236	235
Private banking	16	16
Small and micro businesses	28	27
Medium and large businesses *	9	8
Institutional entities	33	33
Financial management	5	5
Total	**327**	324

*This segment includes activities with large businesses of an immaterial scope.

Households segment

In the household segment, the Bank offers a variety of financial services and products for private individuals (excluding those attrbiuted to the private banking segment). The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for residential apartments and commercial properties, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, loans for the acquisition of vehicles, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches, through digital means, and by means of the Bank's call center, including IVR services.

This segment is divided into two subsegments: housing loans and other.

Presented below is a description of the main products and services offered within the framework of the housing loan subsegment:

- Provision of housing loans and all purpose loans against the pledging of residential homes for individuals and purchasing groups for long periods, with various linkage bases and in accordance with various interest tracks which are determined in accordance with the loan type, customer preferences, the borrower's repayment ability and in accordance with the Bank of Israel's restrictions on housing loans.
- Activities in the mortgage segment also include the provision of associated services involving life insurance for borrowers and property insurance along with a mortgage, which are provided in accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, through Ir Shalem Insurance Agency (1996) Ltd., a subsidiary wholly owned and controlled by the Bank (hereinafter: "Ir Shalem").

Presented below is a description of the main products and services offered within the framework of the activity in another subsegment:

- Provision of solo consumer loans for defined time periods to households.
- Issuance of credit cards to the Bank's customers.
- Credit facilities and activities in checking accounts which are determined in accordance with the customer's needs and income level.
- Provision of credit for defined periods, against collateral.
- Raising of deposits and savings from households.
- Provision of services involving securities - buying, selling and operating transactions with securities and derivatives in Israel and abroad, in the Bank's branches.
- Investment consulting - provision of consulting services regarding securities to customers in all of the Bank's branches, through licensed consultants.

One of the fundamental goals of the Bank’s strategic plan (as described above) is the development and expansion of the household segment, through the sale of financial products to the customers of all banks, regardless of the Bank in which the customer's maintains their main checking account.

Presented below are the primary components of the Bank's strategic plan in this operating segment:

- Provision of mortgages which meet the personal needs and preferences of each customer, while focusing on high profitability channels.
- The provision of consumer credit, in various sale channels, with an emphasis on the internet channel, and with no requirement to arrive at the Bank's branches. The Bank is also continuing to improve its credit underwriting system as a decision-supporting tool.

- Raising of deposits from households, through the Bank's branches and/or through the internet.
- Provision of agency and consulting services regarding securities, as a supplementary product to the provision of deposits.

Activities in the household segment are characterized by significant distribution among customers. From the credit provision perspective, the emphasis on households should be noted, where the credit given to each of them is in a relatively low scope, and therefore, the Bank has no significant dependence on any individual customer or on a limited number of customers, the loss of which could significantly affect the operating segment. This segment also has significant weight in raising the Bank's sources through the various channels.

The competitor in this segment include all of the banks which operate in the market, as well as extra-banking financial entities and credit card companies.

Presented below are details regarding the significant agreements and collaboration agreements to which the Bank is party, which are relevant to the household segment:

Agreements with the Government of Israel for the provision of loans

The Bank has a framework agreement with the Government of Israel for the provision of loans for which the Government is responsible (including arrangement, execution and collection) to entitled individuals through the Ministry of Construction & Housing. According to the agreements, the Bank is entitled to receive fees at various rates, as set forth in the aforementioned agreements, as well as participation in collection expenses. The last framework agreement was signed in July 2004, is in effect for two years, and is automatically renewed each time for an additional period of one year, save in the event that either of the parties has announced the termination of the agreement 4 months before the end of its period.

Additionally, the Bank signed, in May 2008, an agreement with the Government of Israel regarding loans which will be provided to entitled individuals through the Ministry of Construction & Housing, beginning on the signing date of the agreement. The loans which will be provided to entitled individuals under the agreement are mostly out of the Bank's funds, and under the Bank's responsibility, and to a lesser degree, out of the State's funds, and under the State's responsibility. The Bank is entitled to receive subsidization from the government with respect to loans which it has given out of the Bank's funds, as well as fees at various rates with respect to the loans which it has provided out of State funds. The agreement is in effect for one year, and is automatically renewed each time for a period of one additional year, unless either of the parties has given notice regarding the termination of the agreement 3 months before the end of the agreement period.

The Bank has undertaken towards the Government of Israel that in its provision of services under the aforementioned agreements, it will operate in accordance with government circulars, and that it will indemnify the State of Israel if it has not done so. The Bank works in accordance with the provisions of the government's circulars regarding the loans to entitled individuals, and therefore estimates that the liability for indemnification does not create any significant exposure for the Bank.

Agreement regarding life insurance for borrowers

The Bank is party to agreements from 1992 (as updated, from time to time) with several insurance companies, Ir Shalem, and additional insurance agencies. According to the agreements, the insurance companies undertake to provide life insurance to the borrowers, subject to the terms set forth in the agreements and in the insurance policies. The insurance companies are entitled to a premium, and the Bank and the aforementioned insurance agencies are entitled to receive payment from the insurance companies, in consideration of their services. The Bank is the policyholder and beneficiary. The aforementioned agreements apply only to life insurance policies for borrowers which were prepared until December 31, 2005.

Agreement regarding property insurance for borrowers

On April 1, 2007, agreements were signed between the Bank, Ir Shalem Insurance Agency (1996) Ltd., and several insurance companies, according to which the insurance companies undertook to insure assets which had been pledged in favor of the Bank, subject to the terms set forth in the agreements and in the insurance policies, and to pay a commission to Ir Shalem. The agreements were renewed at the end of March 2015, and were extended until March 31, 2016, and will be renewed on an annual basis. The agreements apply only to structural insurance policies which were prepared with respect to loans which were given until December 31, 2005.

Framework agreement - life insurance and structural insurance as an addition to housing loans

An agreement dated April 10, 2006, which is in effect as of January 1, 2006, between Ir Shalem and an insurance company, according to which the insurer will issue life insurance policies and structural insurance policies (including water damage) as an addition to housing loans which will be given by the Bank to the Bank's customers, and which will be marketed by Ir Shalem through a subsidiary of an insurance corporation.

Agreement with Bank Leumi Le-Israel Ltd.

The Bank is party to an agreement with Bank Leumi le-Israel Ltd. ("Bank Leumi") dated November 15, 1998, according to which the Bank receives from Bank Leumi clearing services for relays presented in the Bank and relays drawn on the Bank through the Bank Leumi clearing house, in consideration of fees as specified in the agreement.

Agreement with a credit card company

The Bank has an agreement with Israel Credit Cards Ltd. ("C.A.L.") dated August 8, 2002, which reflects the relationship within the framework of the collaboration between the Bank and C.A.L., including as regards the division of responsibilities between the credit card company and the Bank, as well as the commercial terms between the parties.

For additional details regarding the results of operations of the household segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2016, and Note 29 to the financial statements.

Private banking segment

The banking activity in the private banking segment provides services and products which are given to private individuals who have a portfolio of financial assets exceeding NIS 3 million.

This segment is divided into two subsegments: housing loan and other, similarly to the household segment.

The products and services are also similar to those in the household segment, with adjustments according to customer characteristics.

The Bank views this operating segment as an important component of its business operations, and accordingly, acts with the aim of, inter alia:

- Preserving the status and reputation which the Bank has created among Jewish communities abroad.
- Ensuring the implementation of all regulatory provisions, including the evaluation and identification of customers' sources of income, and signing them on the relevant documents and declarations which are required for each customer segment.

The Bank invests efforts in designated professional training for the bankers who work vis-à-vis customers in the segment. The Bank also have an advantage which is reflected on the level of the service and availability of these bankers, which are highly familiar with the culture of this segment's customers, and accordingly, have the ability to create a personal connection with them.

The significant agreements and collaboration agreements to which the Bank is party, which are relevant to the private banking segment, are as specified in the section regarding the household segment above.

For additional details regarding the results of operations of the private banking segment and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2016, and Note 29 to the financial statements.

Business segment

The business segment is divided into two subsegments, as follows:

Small and micro businesses segment - businesses with a turnover of less than NIS 50 million.

Medium and large business segment - businesses whose turnover is greater than or equal to NIS 50 million (the scope of activities with large businesses is immaterial).

These subsegments provide banking services to business customers in various sectors:

Construction and real estate - Through the Bank's real estate segment, primarily the accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, including, inter alia, the financing of urban renewal projects, initiated projects, removal-construction transactions, and projects initiated and financed by purchase groups. The vast majority of the real estate portfolio is implemented in collaboration with insurance companies which issue securities in accordance with the Sales Law for accompanied projects, and sometimes also through collaboration involving financial credit.

Other - The Bank manages credit through the retail division, within the framework of the credit and branch operation unit, which is given to finance projects in the solar energy segment (management of existing credit only), whether independently or through joint financing with financial entities, and through commercial loans. According to the Bank's credit policy, the current business credit in the commercial banking unit has been in an ongoing trend of reduction in recent years, a trend which is expected to continue in the coming year.

Activities in the construction and real estate segment include the acquisition of land and the construction of residential projects, as well as the provision of guarantees of various types, in accordance with the requirements of the transaction. Financing for the construction of residential projects is for the most part given through the closed accompaniment method, according to the specific needs of each project, and in accordance with its characteristics. In the closed accompaniment method, the project is separated from the customer's other activities. A designated account is opened for the project, which is used for the purpose of that project only, to which are deposited the funds which are received from the buyers of residential units, as well as equity and the Bank's credit. These funds are used to perform the project and are released in accordance with the rate of progress on construction, in accordance with reports issued by an expert supervisor. As part of the financing of the construction project, the Bank provides performance guarantees, monetary guarantees, and guarantees in accordance with the Sale Law to individuals who buy units in the project. The land and receipts are pledged in favor of the Bank. In most transactions, collateral in accordance with the Sale Law is issued by insurance companies with whom the Bank has a collaboration agreement.

The Bank collaborates with financial entities for the purpose of optimal usage of capital and achieving profitable returns, while distributing credit risks and fulfilling the required regulatory restrictions.

The difference between the various types of collaboration with financial entities is reflected in the type of credit or collateral which is provided by the financial entity: provision of collateral in accordance with the Sale Law; Provision of collateral to land owners in a combination transaction; and provision of financial credit, in accordance with the operator model. In the last quarter 2016, the collaboration was also extended to the sale of the monetary credit portfolio to an insurance company.

The operator model in the real estate and construction segment is implemented in accordance with the following principles:

The project is evaluated and approved by the institutions of the financial partner; The collateral in the project is provided pari-passu, where the distribution ratio in case of realization of the collateral was predetermined between the Bank and the financial partner; The ratio of credit provision amounts is maintained throughout the lifetime of the project. The release of surpluses which are received with respect to the project to the entrepreneur is performed by the Bank in accordance with the surplus release formula which is approved by the Bank, and included in the collaboration agreement.

Management of the project according to this model is performed by the Bank in its independent judgment, and in accordance with conventional banking standards; Monitoring reports regarding the project are submitted by the supervisor to the Bank and to the additional entity, whereby the Bank reports to the additional entity regarding extraordinary events in the project.

Activities in the other segment include the provision of credit to finance the operating activities of companies - the Bank reached a decision to reduce the scope of credit given in this operating segment, due to the significant allocation of capital and the routine operations which are required for this purpose. The financing of commercial activities in the portfolio, including the financing of income-generating properties and operating activities, is generally performed against material collateral. The operating activities of companies are financed, inter alia, against the pledging of current assets.

Credit for the solar energy segment - financing of the acquisition and operation of solar energy systems is implemented against a contract vis-à-vis the Electric Corporation for a period of 20 years, according to a defined and fixed electricity purchasing tariff for the entire operating period. Additionally, the Bank pledges the equipment for the system and the entire set of contracts in the transaction, and, as required, accumulates various reserves during the financing period. In this segment, the Bank cooperates with financial entities, similarly to the real estate segment, in accordance with the operator model. A trend of reduction is being applied to this operating segment, in light of the absence of relevant financial quotas by the Bank, and in accordance with the Bank's credit policy.

The operator model in the solar energy credit segment is implemented in accordance with the following principles:

A collaboration agreement between the Bank and the financial entity is formulated and signed before any financing is given by the Bank for the project. The collateral in the project is provided pari-passu, where the distribution ratio in case of realization of the collateral was predetermined between the Bank and the financial partner; The ratio of the scopes of credit provision between the Bank and the financial partner is also determined in advance, and is maintained throughout the lifetime of the project.

Projects according to this model are managed by the Bank as the representative of the lenders, in its discretion, and in accordance with the financing agreements and the collaboration agreement between the Bank and the financial entity, and in accordance with conventional banking standards; An engineering report with respect to the project is submitted by the supervisor to the Bank and to the additional entity before the provision of financing. Throughout the lifetime of the project, the Bank reports to the additional financial entity regarding the current data of the project, and regarding any extraordinary events in the project.

As part of the strategic plan (as described above), the Bank works to implement a selective segmental policy in the segment involving the provision of credit to construction companies and residential real estate, with an emphasis on maintaning the volume of the managed portfolio, while reducing the Bank's share, and without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. This strategy allows the Bank to increase the scope of projects which it is handling, in accordance with the Bank's policy, use of accumulated expertise, engagement in large and complex transactions and distribution of risk, while accordingly increasing return on equity resulting from this activity, and reducing risk.

The Bank also works to direct risk and inputs towards the financing of projects (accompaniment of residential construction), while reducing the scope of commercial credit to finance the operating activities of small companies and businesses, as much as possible, and reducing the scope of credit given to projects in the solar energy segment.

The Bank's credit portfolio is distributed, and the Bank is not dependent on any individual customer or on a limited group of customers. The credit balance of the Bank's customers does not overlap with the restriction of any single borrower. The distribution of the portfolio is also made possible through the Bank's strategic collaboration with insurance companies, which generally issue policies in accordance with the Sales (Apartments) Law to buyers in projects which are accompanied by the Bank. There are also collaborations with insurance companies regarding the provision of financial credit in accompanied projects (according to the operator model).

The credit which currently exists in the commercial activities is at a low scope per borrower, and features adequate distribution. There are two types of customers in the solar energy segment: 1) property owners who own solar energy systems built on rooftops which they own; and 2) the greater part - entrepreneurs who rent rooftops on which solar energy systems are installed.

The competition between the banks over high-quality customers in the real estate segment is reflected in the rates of equity invested in the project, the transaction structure, fee rates, interests on credit and the level of customer service. Insurance companies are also planning to enter the field of project financing. Two such companies have created a department and have effectively entered the market.

The Bank's primary methods for dealing with competition are based on the relationships which it has built over the years and the Bank's existing customer base, which constitute a source of leverage for the Bank's ongoing activities. Additionally, the Bank sometimes uses the surplus of sources in existing projects to leverage future activities in new projects initiated by its customers. The Bank applies a mechanism to determine the scope of equity which is required in projects, which is derived from the rate of performance and sales in the project. The aforementioned mechanism incentivizes early sales in the projects, thereby reducing the risk level in these projects.

According to the Bank's assessment, in 2016, the Bank's relative share in the accompaniment of new residential units amounted to approximately 12% of all residential units which were under construction in 2016.

Collaboration agreements

The Bank has collaborations with several insurance companies for the provision of credit and/or for the issuance of insurance policies by them to the buyers of apartments in residential projects, in which financing was provided by the Bank, through the closed accompaniment method (the issuance of policies is performed by the insurance companies, as required under the Sales (Apartments) Law, and also by financing the solar energy segment (management of existing credit only). The engagements with insurance companies include arranging the collaboration between the Bank and the insurance companies on the following subjects: responsibility for the ongoing management of the project and submission of reports, receipt and release of collateral and initiating measures for the realization of pledges and credit relationships between the entities.

For additional details regarding the results of operations of the business segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2016, and Note 29 to the financial statements.

Institutional segment

The activity in this segment includes the raising of financing sources and the provision of commercial services to institutional customers. These customers include insurance companies, stock exchange member companies and mutual funds. Most of the Bank's institutional customers have a strong link to the capital market, and are managed directly by the institutional desk.

The deposits are managed in all periods in Israeli currency and in foreign currency. The deposit amounts are significant, and usually exceed NIS 5 million.

Most of the competition in the institutional entities segment is vs. the various banks in Israel.

For additional details regarding the results of operations of the institutional segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2016, and Note 29 to the financial statements.

Financial management segment

Summary description of the segment's characteristics

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of assets and liabilities
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Activities vis-à-vis banks in Israel and around the world.

The activities in this segment are focused on the financial division. The main financial exposures in the Bank are managed are created in the banking portfolio as an inseparable part of the Bank's business operations. In general, the Bank aims to minimize its financial exposures, except in cases where, according to our estimate, there is a clear advantage to maintaining the exposure to one or more market factors. The Bank manages, on an ongoing basis, the positions in the various linkage segments through the various financial tools which are available to it, in accordance with the risk management policy which was determined by the Bank's Board of Directors, in consideration of economic developments and of the Bank's business environment. The Bank maintains a unit responsible for the measurement and estimation of the development of exposures on a continuous basis, and the various exposures are reported to the Bank's Board of Directors as part of the ordinary course of business.

Additionally, the Bank initiates actions involving investment in and hedging of nostro portfolios, which are used for the following activity types:

- Activity intended to hedge against deposits which are deposited in the Bank for short, medium and long periods, as well as investments against the Bank's equity.
- Activity involving investments in bonds, primarily with the aim of achieving surplus returns on the Bank's liquid balances.
- Trading activity which is characterized by short-term investments, primarily in governmental securities, both in the primary market and in the secondary market.
- Investing activities with respect to non-governmental securities is limited and specific, in accordance with the Bank's credit policy.
- As part of liquidity management, and in consideration of the restrictions were which determined by

the Board of Directors, liquidity surpluses are deposited in the Bank of Israel and in banks in Israel and around the world. For this purpose, and as part of the Bank's activities in foreign currency, the Bank has credit facilities Board of Directors in Israel, which it uses, from time to time, in accordance with its current needs. These facilities are monitored on an ongoing basis as part of the Bank's management of counterparty risk. For details regarding the liquidity model, counterparty risk and restrictions of management and Board of Directors, see the chapter regarding risks and risk management methods.

The investment portfolios and financial products are evaluated on an ongoing basis, in consideration of the macro-economic forecasts regarding exchange rates, short and long term interest rates, inflation, growth and yield curves, and in accordance with the Bank's risk appetite at a given moment.

Since the end of 2014, the Bank has significantly reduced its exposure to the various market risks, based on the assessment that the risk in the markets is inappropriately priced. Accordingly, the increase in market volatility and the decrease in the value of financial assets in recent months had a minimal impact on the Bank,

The Bank's business plan includes continued maintenance of a conservative position and low exposures to the various market factors, based on the assessment that the volatility in capital markets will continue in the coming months, and in light of the economic uncertainty.

For additional details regarding the results of operations in the financial management segment, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management for 2016, and Note 29 to the financial statements.

Ratings provided for the Bank's liabilities by Standard & Poor's Maalot

On May 31, 2016, the rating company Standard & Poor's Maalot (hereinafter: "Maalot") announced that it was leaving the Bank's rating as ilA+, and left the rating outlook as “stable”.

The rating of the deferred liability notes which were issued by the subsidiary Jerusalem Finance & Issuance Ltd. reflects one level lower than the issuer's level, i.e., a rating of ilA-.

These deferred liability notes are recognizable as Tier 2 capital in accordance with the transitional provisions of Basel III.

The rating of the contingent deferred liability certificates (CoCo) which are recognizable as Tier 2 capital in accordance with the provisions of Basel III is ilBBB+.

Gil Topaz
CEO

Zeev Nahari
Chairman of the Board of Directors

February 28, 2017

Annexes

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies [1] and analysis of changes in interest income and expenses

Part A - Average Balances and Interest Rates - Assets

Reported amounts

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance [2]	Interest income	Income rates Percent	Average balance [2]	Interest income	Income rates Percent	Average balance [2]	Interest income	Income rates Percent
Interest bearing assets									
Credit to the public [3]	9,962.7	432.3	4.34	9,683.8	393.6	4.06	9,635.5	433.4	4.50
Deposits in banks	172.0	0.1	0.06	297.7	0.2	0.07	162.2	0.2	0.12
Deposits in central banks	1,005.6	0.9	0.09	1,588.2	1.9	0.12	1,658.6	10.3	0.62
Available for sale bonds [4]	809.3	3.1	0.38	917.5	9.1	0.99	550.1	12.1	2.20
Marketable bonds [4]	787.5	1.0	0.13	446.0	1.0	0.22	470.4	1.8	0.38
Other assets	3.4	0.9	26.47	6.4	0.5	7.81	29.6	0.6	2.03
Total interest bearing assets	12,740.5	438.3	3.44	12,939.6	406.3	3.14	12,506.4	458.4	3.67
Receivables with respect to non-interest bearing credit cards	34.4	-	-	35.4	-	-	32.9	-	-
Other non-interest bearing assets [5]	1,415.4	-	-	1,004.7	-	-	838.0	-	-
Total assets	14,190.3	438.3	3.09	13,979.7	406.3	2.91	13,377.3	458.4	3.43

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies [(1)] and analysis of changes in interest income and expenses (Cont.)

Part B - Average balances and interest rates - liabilities and capital

Reported amounts in millions of NIS

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance [(2)]	Interest expenses	Income rates Percent	Average balance [(2)]	Interest expenses	Income rates Percent	Average balance [(2)]	Interest expenses	Income rates Percent
Interest bearing liabilities									
On demand	825.4	0.6	0.08	802.1	1.3	0.17	348.5	3.5	1.00
For fixed periods	8,666.7	63.6	0.73	8,754.1	47.0	0.54	9,412.0	100.8	1.07
Total public deposits	9,492.1	64.2	0.68	9,556.2	48.3	0.51	9,760.5	104.3	1.07
Deposits from banks	41.5	1.7	4.10	45.3	1.6	3.53	51.1	2.2	4.31
Securities which were lent or sold within the framework of a repurchasing agreement	637.4	0.4	0.06	364.3	0.4	0.11	349.8	1.1	0.31
Bonds	1,575.1	29.0	1.84	1,533.0	21.9	1.43	1,318.4	33.8	2.56
Total interest bearing liabilities	**11,746.1**	**95.3**	**0.81**	**11,498.8**	**72.2**	**0.63**	**11,479.8**	**141.4**	**1.23**
Non-interest bearing public deposits	1,448.1	-	-	1,537.3	-	-	1,053.3	-	-
Other non-interest bearing liabilities [(7)]	196.5	-	-	170.1	-	-	107.4	-	-
Total liabilities	**13,390.7**	**95.3**	**0.71**	**13,206.2**	**72.2**	**0.55**	**12,640.5**	**141.4**	**1.12**
Total capital resources	**799.6**			**773.5**			**736.8**		
Total liabilities and capital resources	**14,190.3**		**-**	**13,979.7**		**-**	**13,377.3**		**-**
Interest margin			**2.63**			**2.51**			**2.44**
Net returns [(8)] on interest bearing assets	**12,740.5**	**343.0**	**2.69**	**12,939.6**	**334.1**	**2.58**	**2,506.4**	**317.0**	**2.53**

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies [1] and analysis of changes in interest income and expenses (Cont.)

Part C - Average balances and interest rates - additional information regarding interest bearing assets and liabilities which are attributed to the activity in Israel

Reported amounts in millions of NIS

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average balance[2]	Interest income / (expenses)	Income / expense rates	Average balance[2]	Interest income / (expenses)	Income / expense rates	Average balance[2]	Interest income / (expenses)	Income / expense rates
			Percent			Percent			Percent
Unlinked Israeli currency									
Total interest bearing assets	7,632.8	275.5	3.61	7,765.4	255.7	3.29	7,582.5	269.6	3.56
Total interest bearing liabilities	7,111.8	(41.2)	(0.58)	6,898.9	(37.9)	(0.55)	6,901.7	(66.9)	(0.97)
Interest margin			**3.03**			**2.74**			**2.59**
CPI-linked Israeli currency									
Total interest bearing assets	3,477.2	125.0	3.59	3,466.3	110.8	3.20	3,629.8	154.2	4.25
Total interest bearing liabilities	3,424.9	(45.9)	(1.34)	3,467.7	(29.5)	(0.85)	3,381.3	(68.5)	(2.03)
Interest margin			**2.25**			**2.35**			**2.22**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest bearing assets	1,630.5	37.8	2.32	1,707.9	39.8	2.33	1,294.1	34.6	2.67
Total interest bearing liabilities	1,209.4	(8.2)	(0.68)	1,132.2	(4.8)	(0.42)	1,196.8	(6.0)	(0.50)
Interest margin			**1.64**			**1.91**			**2.17**
Total activities in Israel									
Total interest bearing assets	12,740.5	438.3	3.44	12,939.6	406.3	3.14	12,506.4	458.4	3.67
Total interest bearing liabilities	11,746.1	(95.3)	(0.81)	11,498.8	(72.2)	(0.63)	11,479.8	(141.4)	(1.23)
			2.63			**2.51**			**2.44**

Notes at the end of this annex.

Annex 1, Rates of interest income and expenses - of the Bank and its consolidated companies [1] and analysis of changes in interest income and expenses (Cont.)

Part D - Analysis of Changes in Interest Income and Expenses

Reported amounts in millions of NIS

	For the year ended December 31, 2016, as compared with the year ended December 31, 2015			For the year ended December 31, 2015, as compared with the year ended December 31, 2014		
	Increase (decrease) due to change		Net change	Increase (decrease) due to change		Net change
	Amount	Price		Amount	Price	
	NIS millions			NIS millions		
Interest bearing assets						
Credit to the public in Israel	12.1	26.6	38.7	2.0	(41.8)	(39.8)
Other interest bearing assets in Israel	(1.4)	(5.3)	(6.7)	1.8	(14.1)	(12.3)
Total interest income	**10.7**	**21.3**	**32.0**	**3.8**	**(55.9)**	**(52.1)**
Interest bearing liabilities						
Public deposits in Israel	(0.4)	16.3	15.9	(1.0)	(55.0)	(56.0)
Other interest bearing liabilities	0.8	6.4	7.2	2.9	(16.1)	(13.2)
Total interest expenses	0.4	22.7	**23.1**	1.9	(71.1)	**(69.2)**

(1) The figures are presented after taking into account the effects of hedging derivative instruments.
(2) Based on balances as of the start of the month (in the unlinked Israeli currency segment - based on daily balances).
(3) Before deducting the average balance-sheet balance of provisions for credit losses. Including impaired debts which do not accrue interest income.
(4) The average balance of bonds held for trading and of bonds available for sale includes the deduction of the average balance of unrealized profits/losses from adjustments to fair value of bonds held for trading and profits/losses with respect to bonds available for sale, which are included in equity under other comprehensive income, in the item for "adjustments with respect to the presentation of available for sale securities at fair value", for the years 2016, 2015 and 2014, in the amount of (17.5), 2.6 and 13.1, respectively.
(5) Including derivative instruments and other non-interest bearing assets, less the provision for credit losses.
(6) Fees in the amount of NIS 4.5, 13.9 and 21.1 million were included under interest income in the years 2016, 2015 and 2014, respectively.
(7) Including derivative instruments.
(8) Net returns - interest income, net, divided by total interest bearing assets.
(9) The change attributed to the change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the change in price.

Annex 2- Consolidated balance sheets - multi-quarter data for the end of each quarter in the years 2016 and 2015

Reported amounts in millions of NIS

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Assets								
Cash and deposits in banks	2,522.0	2,335.9	2,487.7	2,341.8	2,071.9	2,228.5	2,325.1	3,161.1
Securities	1,434.5	1,754.2	1,574.0	1,099.9	1,779.5	1,567.7*	1,511.3*	829.1*
Credit to the public, net	9,790.1	10,131.2	10,156.9	10,009.9	9,889.3	9,859.6	9,599.8	9,520.5
Buildings and equipment	157.8	153.5	155.2	154.7	156.9	151.7	154.6	149.5
Intangible assets	0.8	0.9	1.0	1.1	1.2	1.3	1.4	1.5
Assets with respect to derivative instruments	151.1	141.5	129.9	61.7	195.1	111.0	210.8	39.0
Other assets	145.7	137.7	125.2	125.7	125.6	127.7*	129.1*	147.3*
Total assets	**14,202.0**	**14,654.9**	**14,629.9**	**13,794.8**	**14,219.5**	**14,047.5***	**3,932.1***	**13,848.0***
Liabilities and capital								
Public deposits	10,868.3	11,048.2	11,165.1	10,832.6	11,019.0	11,119.3	10,926.0	11,124.6
Deposits from banks	36.5	40.7	40.1	39.5	39.4	43.9	43.1	42.3
Government deposits	1.1	-	-	-	0.8	-	-	2.1
Lent securities	590.4	892.7	687.1	347.1	387.3	399.0	326.1	245.7
Bonds and deferred liability notes	1,582.1	1,568.6	1,634.1	1,566.7	1,634.8	1,430.6	1,495.6	1,421.3
Liabilities in respect of derivative instruments	146.7	154.6	143.8	64.4	195.2	117.5	190.8	35.6
Other liabilities	168.6	141.4	151.7	154.2	159.0	156.1	180.4	204.5
Total liabilities	**13,393.7**	**13,846.2**	**13,821.9**	**13,004.5**	**13,435.5**	**13,266.4**	**13,162.0**	**13,076.1**
Equity	808.3	808.7	808.0	790.3	784.0	781.1*	770.1*	771.9*
Total liabilities and capital	**14,202.0**	**14,654.9**	**14,629.9**	**13,794.8**	**14,219.5**	**14,047.5***	**13,932.1***	**13,848.0***

* Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.
The notes to the financial statements constitute an inseparable part thereof.

Annex 2 - Consolidated Statements of Income - Data Regarding Multiple Quarters for 2016 and 2015

Reported amounts in millions of NIS

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	102.2	126.7	127.4	82.0	86.7	118.6	145.2	55.8
Interest expenses (income)	18.0	39.4	37.5	0.4	2.3	35.2	58.6	(23.9)
Interest income, net	84.2	87.3	89.9	81.6	84.4	83.4	86.6	79.7
Expenses with respect to credit losses	7.9	7.1	3.1	12.3	14.4	12.2	8.8	5.0
Interest income, net, after expenses with respect to credit losses	76.3	80.2	86.8	69.3	70.0	71.2	77.8	74.7
Non-interest income								
Non-interest financing income (expenses)	4.9	(1.9)	0.3	32.1	1.6	(1.0)	(2.4)	2.7
Fees	29.4	29.8	31.0	30.7	28.5	28.1	30.5	37.4
Other income	0.7	2.8	2.9	5.1	7.9	2.4	4.1	2.9
Total non-interest income	35.0	30.7	34.2	67.9	38.0	29.5	32.2	43.0
Operating and other expenses								
Payroll and associated expenses	42.1	42.8	43.8	44.7	44.0	36.8	42.4	43.1
Maintenance and depreciation of buildings and equipment	22.6	22.9	22.6	21.8	21.9	20.3	19.7	19.9
Other expenses	32.4	30.1	31.0	29.7	34.1	27.5	28.0	28.1
Total operating and other expenses	97.1	95.8	97.4	96.2	100.0	84.6	90.1	91.1
Profit before taxes	14.2	15.1	23.6	41.0	8.0	16.1	19.9	26.6
Provision for taxes	8.1	5.2	6.4	18.6	1.7	5.6	5.8	8.9
Net profit	6.1	9.9	17.2	22.4	6.3	10.5	14.1	17.7
Earnings per share (in NIS)								
Basic and diluted net earnings per share (NIS)	0.09	0.14	0.24	0.32	0.09	0.15	0.20	0.25

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Annex 3 - Consolidated Statements of Income - Multi-Annual Data

Reported amounts in millions of NIS

	December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Interest income	**438.3**	406.3	458.4	543.2	555.7
Interest expenses	**95.3**	72.2	141.4	286.0	324.8
Interest income, net	**343.0**	334.1	317.0	257.2	230.9
Expenses with respect to credit losses	**30.4**	40.4	18.4	54.7	36.0
Interest income, net, after expenses with respect to credit losses	**312.6**	293.7	298.6	202.5	194.9
Non-interest income					
Non-interest financing income	**35.4**	0.9	18.1	14.2	22.6
Fees	**120.9**	124.5	118.3	91.4	90.2
Other income	**11.5**	17.3	11.5	0.9	0.6
Total non-interest income	**167.8**	142.7	147.9	106.5	113.4
Operating and other expenses					
Payroll and associated expenses	**173.4**	166.3	171.2	152.9	141.6(1)
Maintenance and depreciation of buildings and equipment	**89.9**	81.8	71.2	57.6	47.0(1)
Other expenses	**123.2**	117.7	110.0	82.1	69.8
Total operating and other expenses	**386.5**	365.8	352.4	292.6	258.4
Profit before taxes	**93.9**	70.6	94.1	16.4	49.9
Provision for taxes	**38.3**	22.0	29.1	3.7	16.7(1)
Net profit	**55.6**	48.6	65.0	12.7	33.2
Basic and diluted net earnings per share (NIS)	**0.79**	0.69	0.92	0.18	0.47
Other comprehensive income (loss) (after tax impact)	**(17.5)**	2.1	12.6	0.9	12.8
Total comprehensive income	**38.1**	50.7	77.6	13.6	46.0

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G. to the financial statements.
(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds.

Annex 3 - Consolidated Balance Sheets - Multi-Annual Data

Reported amounts in millions of NIS

	December 31				
	2016	**2015**	**2014**	**2013**	**2012**
Assets					
Cash and deposits in banks	**2,522.0**	2,071.9	3,278.0	2,833.4	1,360.6
Securities	**1,434.5**	1,779.5	902.4(3)	676.6	1,163.0
Credit to the public	**9,892.6**	10,000.9	9,674.4	9,735.5	9,672.1
Provision for credit losses	**(102.5)**	(111.6)	(107.9)	(108.9)	(90.7)
Credit to the public, net	**9,790.1**	9,889.3	9,566.5	9,626.6	9,581.4
Buildings and equipment	**157.8**	156.9	149.7(2)	139.5(2)	112.8(2)
Intangible assets and goodwill	**0.8**	1.2	1.6	2.0	-
Assets with respect to derivative instruments	**151.1**	195.1	40.4	21.7	20.9
Other assets	**145.7**	125.6	146.2(1)(2)(3)	160.0(2)	49.0(2)
Total assets	**14,202.0**	**14,219.5**	**14,084.8(1)(2)(3)**	**13,459.8(2)**	**12,287.7(2)**
Liabilities and capital					
Public deposits	**10,868.3**	11,019.0	10,977.2	11,071.1	9,813.7
Deposits from banks	**36.5**	39.4	42.5	51.5	63.3
Government deposits	**1.1**	0.8	5.0	0.7	-
Securities which were lent or sold within the framework of a repurchasing agreement	**590.4**	387.3	582.7	27.5	-
Bonds and liability notes	**1,582.1**	1,634.8	1,503.1	1,406.0	1,581.0
Liabilities in respect of derivative instruments	**146.7**	195.2	39.0	12.3	16.4
Other liabilities	**168.6**	159.0	184.9(1)(2)	200.2(2)	123.0
Total liabilities	**13,393.7**	**13,435.5**	**13,334.4**	**12,769.3(2)**	**11,597.4**
Equity	**808.3**	784.0	750.4(1)(2)(3)	690.5(2)	690.3
Total liabilities and capital	**14,202.0**	**14,219.5**	**14,084.8(1)(2)(3)**	**13,459.8(2)**	**12,287.7**

(1) Restated due to the adjustment of the asset value of assets which were acquired by the Bank, and the creation of a margin from an acquisition at an opportune price in the amount of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income which will be amortized over a period of 5 years, using the straight line method (NIS 11.4 million per year) from the acquisition date on December 15, 2013, and is included in the statement of income, under the item for other income.

(2) Restated due to the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see note 1.D.1. and 1.D.2. to the financial statements.

(3) Restated in order to retrospectively reflect the required correction in the reclassification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.