

## DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL AND ADDITIONAL INFORMATION REGARDING RISKS

The actuarial valuation of employee rights, the document "Disclosure requirements detailed in the third Pillar of Basel and additional disclosure regarding risks", and the document "Additional regulatory disclosures" are available for perusal at the Magna site of the Israeli Securities Authority: [www.magna.isa.gov.il](http://www.magna.isa.gov.il)

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

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## Disclosure according to the third pillar of Basel and additional information regarding risks

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The meeting of the Board of Directors held on November 14, 2017, in the framework of approval of the Bank's Report for the third quarter of 2017, decided also to approve and publish the report in the matter of "Disclosure according to the third pillar of Basel and additional information regarding risks".

## THE REGULATORY CAPITAL AND MANAGEMENT THEREOF

For details regarding Basel and the regulatory capital requirements, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 7-8).

For details regarding the framework for measurement and capital adequacy according to the first Pillar of Basel (table 1), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 7-9).

## CAPITAL STRUCTURE

### Capital components for calculating ratio of capital

|   | Unaudited       |               | Audited       |
|---|-----------------|---------------|---------------|
|   | September 30,   |               | December      |
|   | 2017            | 2016          | 31,           |
|   | 2016            |               |               |
|   | in NIS millions |               |               |
| <b>A. Tier 1 capital</b>  |                 |               |               |
| Common equity   | 15,755          | 14,568        | 14,936        |
| Difference between common equity and common equity tier 1   | (60)            | 207           | 104           |
| Total common equity tier 1 before supervisory adjustments and deductions                          | 15,695          | 14,775        | 15,040        |
| <b>Supervisory adjustments and deductions</b>   |                 |               |               |
| Goodwill and other intangible assets  | 160             | 160           | 160           |
| Deferred tax assets   | -               | -             | -             |
| Supervisory adjustments and other deductions  | 4               | 4             | 2             |
| Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan | 164             | 164           | 162           |
| Total adjustments in respect to the efficiency plan   | 167             | 198           | 158           |
| <b>Total common equity tier 1 after supervisory adjustments and deductions</b>                    | <b>15,698</b>   | <b>14,809</b> | <b>15,036</b> |
| <b>B. Additional tier 1 capital</b>   |                 |               |               |
| Additional tier 1 capital before deductions   | 890             | 1,068         | 1,068         |
| <b>Total additional tier 1 capital after deductions</b>   | <b>890</b>      | <b>1,068</b>  | <b>1,068</b>  |
| <b>C. Tier 2 capital</b>  |                 |               |               |
| Instruments before deductions   | 3,731           | 3,534         | 3,301         |
| Provision before deductions   | 1,818           | 1,645         | 1,719         |
| Total tier 2 capital before deductions  | 5,549           | 5,179         | 5,020         |
| Deductions  | -               | -             | -             |
| <b>Total tier 2 capital</b>   | <b>5,549</b>    | <b>5,179</b>  | <b>5,020</b>  |

**Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3)**

|   | Consolidated<br>regulatory<br>balance sheet<br>September 30,<br>2017 | Consolidated<br>regulatory<br>balance sheet<br>September 30,<br>2016 | Consolidated<br>regulatory<br>balance sheet<br>December 31,<br>2016 | References to<br>components of<br>the regulatory<br>capital <sup>(1)</sup> |
|---|--|--|---|--|
| In NIS million  |  |  |   |  |
| <b>Assets</b>   |  |  |   |  |
| Cash and deposits with banks  | 24,815   | 25,873   | 29,311  |  |
| Securities*   | 34,490   | 37,491   | 38,818  |  |
| * Of which: Investments in the equity of financial corporations,<br>which do not exceed 10% of the share capital of the financial<br>corporation  | 31   | 43   | 61  | 14   |
| * Of which: Investments in the equity of financial corporations,<br>which exceed 10% of the share capital of the financial corporation<br>and which do not exceed the deduction threshold | -  | -  | -   | 21   |
| * Of which: Other securities  | 34,459   | 37,448   | 38,757  |  |
| securities borrowed or purchased under resale agreements  | 840  | 177  | 440   |  |
| Credit to the public  | 151,059  | 141,490  | 142,904   |  |
| allowance for credit losses*  | (2,119)  | (2,175)  | (2,144)   |  |
| * Of which: group allowance for credit losses included in tier 2  | (1,618)  | (1,460)  | (1,539)   | 20   |
| * Of which: Allowance for credit losses not included in the<br>regulatory capital   | (501)  | (715)  | (605)   |  |
| Credit to the public, net   | 148,940  | 139,315  | 140,760   |  |
| Credit to Government  | 1,200  | 727  | 737   |  |
| Investments in affiliated companies   | 148  | 151  | 157   |  |
| * Of which: Investments in the equity of financial corporations,<br>which exceed 10% of the share capital of the financial corporation<br>and which do not exceed the deduction threshold | 24   | 23   | 23  | 21   |
| * Of which: Investment in other affiliated companies  | 124  | 128  | 134   |  |
| Buildings and equipment   | 2,239  | 2,255  | 2,295   |  |
| Intangible assets and goodwill*   | 160  | 160  | 160   |  |
| * Of which: goodwill  | 160  | 160  | 160   | 6  |
| * Of which: other Intangible assets   | -  | -  | --  | 7  |
| Assets in respect of derivative instruments   | 3,310  | 3,242  | 3,283   |  |
| Other assets*   | 3,497  | 4,035  | 3,589   |  |
| * Of which: Deferred tax assets**   | <sup>(2)</sup> 1,691   | <sup>(2)</sup> 1,681   | <sup>(2)</sup> 1,595  | 21+75  |
| ** Of which: Deferred tax assets excluding those attributed to<br>timing differences  | -  | -  | -   | 9  |
| ** Of which: Deferred tax liabilities in respect of intangible assets   | -  | -  | --  | 8  |
| ** Of which: Other deferred tax assets  | 1,691  | 1,681  | 1,595   |  |
| * Of which: Excess of deposits over provision   | -  | -  | --  | 12   |
| * Of which: Additional other assets   | 1,806  | 2,354  | 1,994   |  |
| Non-current assets held for sale  | 26   | 25   | 27  |  |
| <b>Total assets</b>   | <b>219,665</b>   | <b>213,451</b>   | <b>219,577</b>  |  |

For notes see next page.

**Presentation of the components of the regulatory capital, as stated in the consolidated regulatory balance sheet (table 3) (continued)**

|   | Consolidated<br>regulatory<br>balance sheet<br>September 30,<br>2017 | Consolidated<br>regulatory<br>balance sheet<br>September 30,<br>2016 | Consolidated<br>regulatory<br>balance sheet<br>December 31,<br>2016 | References to<br>components of<br>the regulatory<br>capital <sup>(1)</sup> |
|---|--|--|---|--|
|   | In NIS million   |  |   |  |
| <b>Liabilities and Equity</b>   |  |  |   |  |
| Deposits from the public  | 173,356  | 164,892  | 172,318   |  |
| Deposits from banks   | 4,284  | 5,711  | 5,342   |  |
| Deposits from the Government  | 275  | 314  | 303   |  |
| Securities loaned or sold under repurchase agreements   | 2,968  | 3,538  | 3,543   |  |
| Collateralized bonds and subordinated capital notes*  | 7,961  | 8,798  | 8,498   |  |
| * Of which: Deferred debt notes not recognized as regulatory capital  | 3,340  | 4,196  | 4,129   |  |
| * Of which: Deferred debt notes recognized as regulatory capital**  | 4,621  | 4,602  | 4,369   | b16,b18  |
| ** Of which: Qualified as regulatory capital components   | 784  | -  | -   | a16,a18  |
| ** Of which: Not qualified as regulatory capital components and subject to transitional instructions  | 3,837  | 4,602  | 4,369   | b16,b18  |
| Liabilities in respect of derivative instruments*   | 3,598  | 3,900  | 3,570   |  |
| * Of which: In respect of self credit risk  | 5  | 6  | 4   | 11   |
| Other liabilities*  | 11,468   | 11,730   | 11,067  |  |
| * Of which: group allowance for credit losses included in tier 2  | 200  | 185  | 180   | 20   |
| * Of which: Deferred tax liability attributed to pension  | -  | -  | --  | 13   |
| * Of which: Adjustment in respect of put option for Non-controlling interests holders in a subsidiary which is subject to transitional instructions | -  | -  | --  |  |
| Liabilities held for sale   | -  | -  | -   |  |
| <b>Total liabilities</b>  | <b>203,910</b>   | <b>198,883</b>   | <b>204,641</b>  |  |
| Equity attributed to the banking corporation's shareholders*  | 15,294   | 14,154   | 14,512  |  |
| * Of which: Ordinary share capital**  | 11,120   | 10,255   | 10,554  |  |
| ** Of which: Ordinary share capital   | 676  | 672  | 673   | 1  |
| ** Of which: Retained earnings  | 10,875   | 9,842  | 9,987   | 3  |
| ** Of which: Accumulated other comprehensive income***  | (431)  | (259)  | (106)   | 4  |
| *** Of which: Net losses on the hedging of cash flows from items not presented in the balance sheet at fair value                                   | -  | -  | --  | 10   |
| *** Of which: Net loss on financial statements translation adjustments  | (259)  | (55)   | 22  |  |
| * Of which: Capital reserves  | 4,174  | 3,899  | 3,958   | 2  |
| * Of which: Preference share capital**  | -  | -  | --  |  |
| ** Of which: Qualified as regulatory capital components   | -  | -  | --  | a15  |
| ** Of which: Not qualified as regulatory capital components and subject to transitional instructions  | -  | -  | --  | b15  |
| * Of which: Other capital instruments**   | -  | -  | --  |  |
| ** Of which: Qualified as regulatory capital components   | -  | -  | --  |  |
| ** Of which: Not qualified as regulatory capital components and subject to transitional instructions  | -  | -  | --  |  |
| Non-controlling interests*  | 461  | 414  | 424   |  |
| * Of which: Non-controlling interests that can be attributed to common equity tier 1  | 290  | 300  | 306   | 5  |
| * Of which: Non-controlling interests that can be attributed to additional tier 1 capital   | -  | -  | --  | 17   |
| * Of which: Non-controlling interests attributed to tier 2 capital  | -  | -  | --  | 19   |
| * Of which: Non-controlling interests not attributable to the regulatory capital  | 171  | 114  | 118   |  |
| <b>Total equity capital</b>   | <b>15,755</b>  | <b>14,568</b>  | <b>14,936</b>   |  |
| <b>Total assets and liabilities</b>   | <b>219,665</b>   | <b>213,451</b>   | <b>219,577</b>  |  |

Notes:

(1) The references are to the Table "Mapping of the components used for the presentation of the composition of the regulatory capital", presented hereunder, to the figure presented under the column "References from stage 2".

(2) In view of the relief granted by the Supervisor of Banks with respect to the 2016 efficiency plan, the balance of deferred tax assets does not include the deferred taxes in respect of the efficiency plan.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)**

|   |  | September 30, 2017  |            | September 30, 2016  |            | December 31, 2016   |            |  |
|---|--|---|------------|---|------------|---|------------|--|
|   |  | In NIS million  |            |   |            |   |            |  |
|   |  | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III |            | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III |            | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III |            | References from level 2 <sup>(2)</sup> |
| <b>Common equity tier 1 : instruments and retained earnings</b>         |  |   |            |   |            |   |            |  |
| 1   | Ordinary share capital issued by the banking corporation and premium on ordinary shares included in Common equity tier 1   | 4,850   | -          | 4,571   | -          | 4,631   | -          | 1+2                                    |
| 2   | Retained earnings, including dividends proposed or declared subsequent to balance sheet date   | 10,885  | 10         | 9,863   | 21         | 10,008  | 21         | 3                                      |
| 3   | Disclosed accumulated other comprehensive income and retained earnings   | (330)   | 101        | 41  | 300        | 95  | 201        | 4                                      |
| 4   | Common equity tier 1 instruments issued by the corporation qualified for inclusion in the regulatory capital in the transitional period  | -   | -          | -   | -          | -   | -          |  |
| 5   | Ordinary shares issued by consolidated subsidiaries of the banking corporation and held by third parties (minority interests)  | 290   | 43         | 300   | 76         | 306   | 78         | 5                                      |
| 6   | <b>Common equity tier 1: before regulatory adjustments and deductions</b>  | <b>15,695</b>   | <b>154</b> | <b>14,775</b>   | <b>397</b> | <b>15,040</b>   | <b>300</b> |  |
| <b>Additional tier 1 capital: regulatory adjustments and deductions</b> |  |   |            |   |            |   |            |  |
| 7   | Adjustments/provisions, stabilization reserves in respect of value assessments   | -   | -          | -   | -          | -   | -          | -                                      |
| 8   | Goodwill, less deferred taxes liability  | 160   | -          | 160   | -          | 160   | -          | 6                                      |
| 9   | Other intangible assets, excluding mortgage service rights, less deferred taxes liability  | -   | -          | -   | -          | -   | -          | 7+8                                    |
| 10  | Deferred tax assets the realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences   | -   | -          | -   | -          | -   | -          | 9                                      |
| 11  | Amount of accumulated other comprehensive income in respect of the hedge of cash flows from items not presented in the balance sheet at fair value   | -   | -          | -   | -          | -   | -          | 10                                     |
| 12  | Negative differences between provisions for anticipated losses   | -   | -          | -   | -          | -   | -          |  |
| 13  | Increase in equity capital due to securitization transactions  | -   | -          | -   | -          | -   | -          |  |
| 14  | Unrealized income and losses due to changes in fair value of liabilities deriving from changes in self credit risk of the banking corporation. Furthermore, in relation to liabilities in respect of derivative instruments, all accounting debt valuation adjustments (DVA) deriving from the self credit risk of the bank should be deducted | 4   | 1          | 4   | 2          | 2   | 2          | 11                                     |
| 15  | Surplus deposits over provision, net of deferred tax liability to be settled if the asset is impaired or is eliminated in accordance with the reporting to the public directives   | -   | -          | -   | -          | -   | -          | 12+13                                  |

For notes see p. 15.



**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|     |  | September 30, 2017   |  | September 30, 2016   |  | December 31, 2016  |  |  |
|-----|--|--|--|--|--|--|--|--|
|     |  | In NIS million   |  |  |  |  |  |  |
|     |  | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | References<br>from level<br>2 <sup>(2)</sup> |
|     | <b>Common equity tier 1 : instruments and retained earnings</b>  |  |  |  |  |  |  |  |
| 16  | Investment in own ordinary shares, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)   | -  | -  | -  | -  | -  | -  |  |
| 17  | Mutual cross-investments in ordinary shares of financial corporations  | -  | -  | -  | -  | -  | -  |  |
| 18  | Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation | -  | -  | -  | -  | -  | -  | 14   |
| 19  | Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation          | -  | -  | -  | -  | -  | -  |  |
| 20  | Mortgage service rights the amount of which exceeds 10% of the Common equity tier 1  | -  | -  | -  | -  | -  | -  |  |
| 21  | Deferred tax assets created by timing differences, the amount of which exceeds 10% of the Common equity tier 1   | 97   | 24   | 120  | 80   | 55   | 37   |  |
| 22  | Amount of mortgage service rights, deferred tax assets arising from timing differences and investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations exceeding 15% of the Common equity tier 1 of the banking corporation     | -  | -  | -  | -  | -  | -  |  |
| 23  | Of which: in respect of investments at a rate exceeding 10% of the ordinary share capital issued by financial corporations   | -  | -  | -  | -  | -  | -  |  |
| 24  | Of which: in respect of mortgage service rights  | -  | -  | -  | -  | -  | -  |  |
| 25  | Of which: deferred tax assets created by timing differences  | -  | -  | -  | -  | -  | -  |  |
| 26  | Regulatory adjustments and additional deductions determined by the Supervisor of Banks   | (264)  | -  | (318)  | -  | (213)  | -  |  |
| 26A | Of which: in respect of investments in the equity of financial corporations  | -  | -  | -  | -  | -  | -  |  |
| 26B | Of which: in respect of mortgage service rights  | -  | -  | -  | -  | -  | -  |  |
| 26C | Of which: additional regulatory adjustments to Common equity tier 1  | (97)   | -  | (120)  | -  | (55)   | -  |  |

For notes see p. 15.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|   | September 30, 2017   |  | September 30, 2016   |  | December 31, 2016  |  |  |
|---|--|--|--|--|--|--|--|
|   | In NIS million   |  |  |  |  |  |  |
|   | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III | References<br>from level<br>2 <sup>(2)</sup> |
| <b>Common equity tier 1 : instruments and retained earnings</b>   |  |  |  |  |  |  |  |
| Of which: adjustments in respect to the efficiency plan   | (167)  |  | (198)  |  | (158)  |  |  |
| Regulatory adjustments to Common equity tier 1 subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III  | -  | -  | -  | -  | -  | -  |  |
| Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation | -  | -  | -  | -  | -  | -  |  |
| 27 Deductions applying to Common equity tier 1 because the amounts of additional tier 1 capital and of tier 2 capital are insufficient to cover the deductions  | -  | -  | -  | -  | -  | -  |  |
| <b>28 Total regulatory adjustments and deductions from Common equity tier 1</b>   | <b>(3)</b>   | <b>25</b>  | <b>(34)</b>  | <b>82</b>  | <b>4</b>   | <b>38</b>  |  |
| <b>29 Common equity tier 1</b>  | <b>15,698</b>  | <b>180</b>   | <b>14,809</b>  | <b>478</b>   | <b>15,036</b>  | <b>338</b>   |  |
| <b>Additional tier 1 capital: deductions</b>  |  |  |  |  |  |  |  |
| 30 Additional tier 1 share capital instruments issued by the banking corporation and premium on these instruments   | -  | -  | -  | -  | -  | -  |  |
| 31 Of which: classified as equity capital in accordance with the reporting to the public directives   | -  | -  | -  | -  | -  | -  | 15a+16a                                      |
| 32 Of which: classified as a liability in accordance with the reporting to the public directives  | -  | -  | -  | -  | -  | -  |  |
| 33 Additional tier 1 capital instruments issued by the banking corporation qualified for inclusion in the regulatory capital for the transitional period  | 890  | 890  | 1,068  | 1,068  | 1,068  | 1,068  | 15b+16b                                      |
| 34 Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors  | -  | -  | -  | -  | -  | -  | 17   |
| 35 which: Additional tier 1 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from additional tier 1 capital  | -  | -  | -  | -  | -  | -  |  |
| 36 Additional tier 1 capital before deductions  | 890  | 890  | 1,068  | 1,068  | 1,068  | 1,068  |  |

For notes see p. 15.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|   | September 30, 2017  |   | September 30, 2016  |   | December 31, 2016   |   |  |
|---|---|---|---|---|---|---|--|
|   | In NIS million  |   |   |   |   |   |  |
|   | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | References from level 2 <sup>(2)</sup> |
| Common equity tier 1 : instruments and retained earnings  |   |   |   |   |   |   |  |
| <b>Additional tier 1 capital: deductions</b>  |   |   |   |   |   |   |  |
| 37 Investment in own capital instruments included in additional tier 1 capital, held directly or indirectly (including a commitment to purchase shares subject to contractual agreements)   | -   | -   | -   | -   | -   | -   |  |
| 38 Mutual cross-investments in capital instruments included in additional tier 1 capital  | -   | -   | -   | -   | -   | -   |  |
| 39 Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation | -   | -   | -   | -   | -   | -   |  |
| 40 Investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation          | -   | -   | -   | -   | -   | -   |  |
| 41 Additional deductions determined by the Supervisor of Banks  | -   | -   | -   | -   | -   | -   |  |
| 41A Of which: in respect of investments in the capital of financial corporations  | -   | -   | -   | -   | -   | -   |  |
| 41B Of which: additional deductions from Common equity tier 1 not included in the framework of Section 41(a)  | -   | -   | -   | -   | -   | -   |  |
| Deductions from additional tier 1 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III   | -   | -   | -   | -   | -   | -   |  |
| Of which: investment in equity of financial corporations that are not consolidated in the statements to the public of a banking corporation, where the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation   | -   | -   | -   | -   | -   | -   |  |
| 42 Deductions applying to additional tier 1 capital because the amount of tier 2 capital is insufficient to cover the deductions  | -   | -   | -   | -   | -   | -   |  |
| 43 <b>Total deductions from additional tier 1 capital</b>   | -   | -   | -   | -   | -   | -   |  |
| 44 <b>Additional tier 1 capital</b>   | 890   | 890   | 1,068   | 1,068   | 1,068   | 1,068   |  |
| 45 <b>Tier 1 capital</b>  | 16,588  | 1,070   | 15,877  | 1,545   | 16,104  | 1,407   |  |

For notes see p. 15.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|  |   | September 30, 2017   |              | September 30, 2016   |              | December 31, 2016  |              |  |
|--|---|--|--------------|--|--------------|--|--------------|--|
|  |   | In NIS million   |              |  |              |  |              |  |
|  |   | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |              | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |              | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |              | References<br>from level<br>2 <sup>(2)</sup> |
| Common equity tier 1 : instruments and retained earnings |   |  |              |  |              |  |              |  |
| <b>Tier 2 capital: Instruments and Provisions</b>        |   |  |              |  |              |  |              |  |
| 46   | Instruments issued by the banking corporation (not included in tier 1 capital) and premium on such instruments  | 784  | -            | -  | -            | -  | -            | 18a  |
| 47   | Tier 2 capital instruments issued by the banking corporation, which are qualified for inclusion in the regulatory capital during the transitional period  | 2,947  | 2,947        | 3,534  | 3,534        | 3,301  | 3,301        | 18b  |
| 48   | Tier 2 capital instruments issued by subsidiary companies of the banking corporation to third party investors   | -  | -            | -  | -            | -  | -            | 19   |
| 49   | Of which: Tier 2 capital instruments issued by subsidiary companies of the banking corporation and held by third party investors, which are deducted gradually from tier 2 capital  | -  | -            | -  | -            | -  | -            |  |
| 50   | Group allowances for credit losses before the related tax effect  | 1,818  | -            | 1,645  | -            | 1,719  | -            | 20   |
| 51   | <b>Tier 2 capital before deductions</b>   | <b>5,549</b>   | <b>2,947</b> | <b>5,179</b>   | <b>3,534</b> | <b>5,020</b>   | <b>3,301</b> |  |
| <b>Tier 2 capital: deductions</b>                        |   |  |              |  |              |  |              |  |
| 52   | Investment in own tier 2 capital instruments, held directly or indirectly (including commitment to purchase instruments subject to contractual obligation)  | -  | -            | -  | -            | -  | -            |  |
| 53   | Mutual cross-holdings of tier 2 capital instruments of financial corporations   | -  | -            | -  | -            | -  | -            |  |
| 54   | Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation does not exceed 10% of the ordinary share capital issued by the financial corporation | -  | -            | -  | -            | -  | -            |  |
| 55   | Investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation          | -  | -            | -  | -            | -  | -            |  |
| 56   | Deduction determined by the Supervisor of Banks   | -  | -            | -  | -            | -  | -            |  |
| 56A  | Of which: in respect of investments in the capital of financial corporations  | -  | -            | -  | -            | -  | -            |  |

For notes see p. 15.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|  | September 30, 2017  |   | September 30, 2016  |   | December 31, 2016   |   |  |
|--|---|---|---|---|---|---|--|
|  | In NIS million  |   |   |   |   |   |  |
|  | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | References from level 2 <sup>(2)</sup> |
| <b>Common equity tier 1 : instruments and retained earnings</b>  |   |   |   |   |   |   |  |
| Of which: additional deductions to tier 2 capital  | -   | -   | -   | -   | -   | -   |  |
| 56B Regulatory adjustments to tier 2 capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III   | -   | -   | -   | -   | -   | -   |  |
| Of which: investment in equity of financial corporations that are not consolidated in the statements published to the public of the banking corporation, when the holdings of the banking corporation exceed 10% of the ordinary share capital issued by the financial corporation | -   | -   | -   | -   | -   | -   |  |
| 57 <b>Total deductions to tier 2 capital</b>   | -   | -   | -   | -   | -   | -   |  |
| 58 <b>Tier 2 capital</b>   | 5,549   | 2,947   | 5,179   | 3,534   | 5,020   | 3,301   |  |
| 59 <b>Total capital</b>  | 22,137  | 4,016   | 21,056  | 5,079   | 21,124  | 4,708   |  |
| Total weighted average of risk assets in accordance with the treatment required prior to the adoption of Directive 202 in accordance with Basel III  | 24  | -   | 80  | -   | 37  | -   |  |
| Of which: deferred tax assets the realization of which is based on the future profitability of the banking corporation, excluding deferred tax assets arising from timing differences  | -   | -   | -   | -   | -   | -   |  |
| Of which: deferred tax assets arising from timing differences  | 24  | -   | 80  | -   | 37  | -   |  |
| 60 <b>Total weighted average of risk assets</b>  | <sup>(3)</sup> 160,806  | -   | <sup>(3)</sup> 151,863  | -   | <sup>(3)</sup> 152,890  | -   |  |
| <b>Capital ratios and capital conservation buffers (percentages)</b>   |   |   |   |   |   |   |  |
| 61 Common equity tier 1  | 9.8   | -   | 9.8   | -   | 9.8   | -   |  |
| 62 Tier 1 capital  | 10.3  | -   | 10.5  | -   | 10.5  | -   |  |
| 63 Total capital   | 13.8  | -   | 13.9  | -   | 13.8  | -   |  |
| 64 Not relevant  | -   | -   | -   | -   | -   | -   |  |
| 65 Not relevant  | -   | -   | -   | -   | -   | -   |  |
| 66 Not relevant  | -   | -   | -   | -   | -   | -   |  |
| 67 Not relevant  | -   | -   | -   | -   | -   | -   |  |
| 68 Not relevant  | -   | -   | -   | -   | -   | -   |  |
| <b>Minimum requirements determined by the Supervisor of Banks</b>  |   |   |   |   |   |   |  |
| 69 Minimum Common equity tier 1 ratio determined by the Supervisor of Banks  | <sup>(1)</sup> 9.2  | -   | <sup>(1)</sup> 9.1  | -   | <sup>(1)</sup> 9.2  | -   |  |
| 70 Minimum Tier 1 capital ratio determined by the Supervisor of Banks  | <sup>(1)</sup> 9.2  | -   | <sup>(1)</sup> 9.1  | -   | <sup>(1)</sup> 9.2  | -   |  |

For notes see p. 15.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|   | September 30, 2017  | September 30, 2016  | December 31, 2016   |  |          |   |  |
|---|---|---|---|--|----------|---|--|
|   | In NIS million  |   |   |  |          |   |  |
|   | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | Amounts not deducted from capital subject to the treatment required prior to the adoption of Directive 202 in accordance with Basel III | References from level 2 <sup>(2)</sup> |          |   |  |
| <b>Common equity tier 1 : instruments and retained earnings</b>   |   |   |   |  |          |   |  |
| Overall capital ratio determined by the Supervisor of Banks   | (1) 12.7  | -   | (1) 12.6  | -                                      | (1) 12.7 | - |  |
| <b>Amounts below the deduction threshold (before the averaging of risk)</b>   |   |   |   |  |          |   |  |
| Investment in the capital of financial corporations (except for banking corporations and their subsidiary companies) which does not exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold | 31  | -   | 43  | -                                      | 61       | - |  |
| Investment in Common equity tier 1 of financial corporations (except for banking corporations and their subsidiary companies) which exceed 10% of the ordinary share capital issued by the financial corporation, and which are below the deduction threshold | 24  | -   | 23  | -                                      | 23       | - |  |
| Mortgage service rights (net of deferred tax liability)   | -   | -   | -   | -                                      | -        | - |  |
| Deferred tax assets arising from timing differences that are below the deduction threshold  | 1,570   | -   | 1,481   | -                                      | 1,504    | - |  |
| <b>Ceiling for inclusion of provisions in tier 2</b>  |   |   |   |  |          |   |  |
| Provision qualified for inclusion in tier 2 considering exposure under the standard approach, before implementation of the ceiling  | 1,890   | -   | 1,645   | -                                      | 1,719    | - |  |
| Upper limit for inclusion of a provision in tier 2 under the standard approach  | 1,818   | -   | 1,645   | -                                      | 1,719    | - |  |
| Provision qualified for inclusion in tier 2 considering exposure under the internal ratings-based approach, before implementation of the ceiling  | -   | -   | -   | -                                      | -        | - |  |
| Ceiling for inclusion of a provision in tier 2 under the internal ratings-based approach  | -   | -   | -   | -                                      | -        | - |  |
| <b>Capital instruments not qualified as regulatory capital that are subject to the transitional instructions</b>  |   |   |   |  |          |   |  |
| The present ceiling amount for instruments included in Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)   | -   | -   | -   | -                                      | -        | - |  |
| Amount deducted from Common equity tier 1 due to the ceiling  | -   | -   | -   | -                                      | -        | - |  |

For notes see next page.

**Mapping of the components used for the purpose of presentation of the regulatory capital composition (table 3)(continued)**

|   | September 30, 2017   |   | September 30, 2016   |   | December 31, 2016  |   |  |
|---|--|---|--|---|--|---|--|
|   | In NIS million   |   |  |   |  |   |  |
|   | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |   | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |   | Amounts<br>not<br>deducted<br>from<br>capital<br>subject to<br>the<br>treatment<br>required<br>prior to the<br>adoption of<br>Directive<br>202 in<br>accordance<br>with Basel<br>III |   | References<br>from level<br>2 <sup>(2)</sup> |
| <b>Common equity tier 1 : instruments and retained earnings</b>   |  |   |  |   |  |   |  |
| 82 The present ceiling amount for instruments included in additional Common equity tier 1 that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299) | 890  | - | 1,068  | - | 1,068  | - |  |
| 83 Amount deducted from additional Common equity tier 1 due to the ceiling  | 890  | - | 713  | - | 713  | - |  |
| 84 The present maximum amount for instruments included in tier 2 capital that are subject to the transitional instructions (according to the transitional provisions in Directive No. 299)                  | 2,947  | - | 3,534  | - | 3,301  | - |  |
| 85 Amount deducted from tier 2 capital due to the ceiling   | -  | - | -  | - | -  | - |  |

**Notes:**

(1) With an addition of 0.18% (September 30, 2016: 0.12%, December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans – see note 9 to the condensed financial statements.

(2) The references are to the Table "Presentation of components comprising the regulatory capital taken from the regulatory consolidated balance sheet", presented above, to the figure presented under the column "References to components of the regulatory capital".

(3) The total weighted balances of the risk assets have been reduced by NIS 46 million (September 30, 2016: NIS 333 million, December 31, 2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

## STATEMENT OF FLOWS OF THE REGULATORY CAPITAL (TABLE 2 D)

## Summary of movements and changes in the regulatory capital

|   | The third quarter of 2017 | The first nine months of 2017 | 2016          |
|---|---------------------------|-------------------------------|---------------|
| <b>Balance at the beginning of period</b>   | 21,852                    | 21,124                        | 20,406        |
| <b>Common Equity Tier 1 before deductions</b>   | -                         | -                             | -             |
| Paid up share capital   | -                         | 3                             | 8             |
| Share premium   | -                         | 216                           | 524           |
| Retained earnings, including dividends proposed or declared after the balance sheet date  | 314                       | 884                           | 940           |
| Unrealized income (loss) from adjustments of available-for-sale securities to fair value  | 23                        | 32                            | (76)          |
| Unrealized income (loss) in respect of cash flow hedging  | -                         | (1)                           | 1             |
| Translation adjustments of autonomous units held abroad   | 29                        | (281)                         | (44)          |
| Other reserves which received the Supervisor's approval   | (46)                      | (173)                         | 21            |
| Minority interests in the equity of consolidated subsidiaries   | 8                         | (16)                          | 22            |
| <b>Total Common Equity Tier 1 before deductions</b>   | <b>328</b>                | <b>664</b>                    | <b>1,396</b>  |
| Goodwill and Intangible assets  | -                         | -                             | 18            |
| Deferred taxes the realization of which is based on future profitability of a banking corporation   | -                         | -                             | (8)           |
| Deferred taxes attributable to timing differences (over 10% of Common Equity Tier 1)  | -                         | -                             | (100)         |
| Unrealized income (loss) as a result of changes in fair value of liabilities resulting from changes in the Bank's self credit risk                            | -                         | 2                             | (1)           |
| Threshold deductions - the amount exceeding 15 % ( in accordance with Section 13 of Directive No. 202)  | -                         | -                             | -             |
| Others  | -                         | -                             | -             |
| <b>Total deductions from Common Equity Tier 1</b>   | <b>-</b>                  | <b>2</b>                      | <b>(91)</b>   |
| <b>Total Common Equity Tier 1 after deductions</b>  | <b>328</b>                | <b>662</b>                    | <b>1,487</b>  |
| Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299 | -                         | (178)                         | (178)         |
| <b>Total Additional Tier 1 Capital after deductions</b>   | <b>-</b>                  | <b>(178)</b>                  | <b>(178)</b>  |
| Instruments issued by the banking corporation and Premium regarding these instruments (in accordance with section 10A and 10B of Directive No. 202)           | -                         | 784                           | -             |
| Instruments issued by the banking corporation qualified for inclusion in regulatory capital in accordance with transitional instructions in Directive No. 299 | (90)                      | (354)                         | (753)         |
| Group allowances for credit losses before related tax effect  | 47                        | 99                            | 162           |
| <b>Total Common Equity Tier 2 before deductions</b>   | <b>(43)</b>               | <b>529</b>                    | <b>(591)</b>  |
| Deduction in respect of investment in financial corporations mainly in respect of FIBI  | -                         | -                             | -             |
| <b>Total deductions from Tier 2 Capital</b>   | <b>-</b>                  | <b>-</b>                      | <b>-</b>      |
| <b>Total Tier 2 Capital after deductions</b>  | <b>(43)</b>               | <b>529</b>                    | <b>(591)</b>  |
| <b>Balance at period end</b>  | <b>22,137</b>             | <b>22,137</b>                 | <b>21,124</b> |



## CAPITAL ADEQUACY

For details regarding the evaluation of capital adequacy (Table 3 A), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 20-21).

For details regarding Capital planning process (Table 3 A1), see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 21-23).

## RISK ASSETS AND CAPITAL REQUIREMENTS (TABLE 3 B, D, E, F)

|   | September 30,      |                                     | December 31,       |                                     | Capital requirements <sup>(1)</sup> |
|---|--------------------|-------------------------------------|--------------------|-------------------------------------|-------------------------------------|
|   | 2017               | 2016                                | 2016               | 2016                                |                                     |
|   | Risk assets        | Capital requirements <sup>(1)</sup> | Risk assets        | Capital requirements <sup>(1)</sup> | Capital requirements <sup>(1)</sup> |
| in NIS millions   |                    |                                     |                    |                                     |                                     |
| <b>Risk assets and capital requirements in respect of credit risk deriving from exposures of:</b>             |                    |                                     |                    |                                     |                                     |
| Sovereigns  | 750                | 95                                  | 531                | 67                                  | 75                                  |
| Public sector entities  | 1,905              | 242                                 | 1,852              | 234                                 | 232                                 |
| Banking corporations  | 2,416              | 306                                 | 2,628              | 332                                 | 360                                 |
| Corporations  | 83,310             | 10,564                              | 78,970             | 9,966                               | 10,051                              |
| Secured by commercial real estate   | 1,619              | 205                                 | 1,533              | 193                                 | 194                                 |
| Retail exposures for private individuals  | 20,065             | 2,544                               | 18,650             | 2,354                               | 2,405                               |
| Small business loans  | 10,180             | 1,291                               | 9,360              | 1,181                               | 1,189                               |
| Housing mortgages   | 15,322             | 1,943                               | 13,236             | 1,670                               | 1,765                               |
| Securitization  | 28                 | 4                                   | 85                 | 11                                  | 10                                  |
| Other assets  | 8,652              | 1,097                               | 8,906              | 1,124                               | 1,099                               |
| <b>Total risk assets and capital requirements in respect of credit risk</b>                                   | <b>(2) 144,247</b> | <b>18,291</b>                       | <b>(2) 135,751</b> | <b>17,132</b>                       | <b>(2) 137,393</b>                  |
| <b>Risk assets and capital requirements in respect of market risk according to the standard approach</b>      | <b>3,146</b>       | <b>399</b>                          | <b>2,872</b>       | <b>362</b>                          | <b>314</b>                          |
| <b>Risk assets and capital requirements in respect of CVA risk according to the standard approach</b>         | <b>1,171</b>       | <b>148</b>                          | <b>1,207</b>       | <b>152</b>                          | <b>119</b>                          |
| <b>Risk assets and capital requirements in respect of operational risk according to the standard approach</b> | <b>12,242</b>      | <b>1,552</b>                        | <b>12,033</b>      | <b>1,519</b>                        | <b>1,527</b>                        |
| <b>Total risk assets and capital requirements</b>   | <b>160,806</b>     | <b>20,390</b>                       | <b>151,863</b>     | <b>19,165</b>                       | <b>19,340</b>                       |

Footnotes:

- (1) With an addition of 0.18% (September 30, 2016: 0.12% ,December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans - see Note 9 (b) to the condensed financial statements.
- (2) The total weighted balances of the risk assets have been reduced by NIS 46 million (September 30, 2016: NIS 333 million, December 31, 2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

## CAPITAL FOR CALCULATING RATIO OF CAPITAL (TABLE 3 G)

|  | Unaudited             |                       | Audited               |
|--|-----------------------|-----------------------|-----------------------|
|  | September 30,         |                       | December 31,          |
|  | 2017                  | 2016                  | 2016                  |
|  | in NIS millions       |                       |                       |
| Common equity tier 1 after deductions      | <sup>(1)</sup> 15,698 | <sup>(1)</sup> 14,809 | <sup>(1)</sup> 15,036 |
| Additional tier 1 capital after deductions | 890                   | 1,068                 | 1,068                 |
| Tier 1 capital                             | 16,588                | 15,877                | 16,104                |
| Tier 2 capital after deductions            | 5,549                 | 5,179                 | 5,020                 |
| <b>Total capital</b>                       | <b>22,137</b>         | <b>21,056</b>         | <b>21,124</b>         |

Footnote:

(1) The total weighted balances of the risk assets have been reduced by NIS 46 million (September 30, 2016: NIS 333 million, December 31, 2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

## RATIO OF CAPITAL TO RISK ASSETS (TABLE 3 H AND I)

|  | Unaudited           |                     | Audited             |
|--|---------------------|---------------------|---------------------|
|  | September 30,       |                     | December 31,        |
|  | 2017                | 2016                | 2016                |
|  | In %                |                     |                     |
| <b>A. Consolidated</b>   |                     |                     |                     |
| <b>Ratio of common equity tier 1 to risk assets</b>                                | 9.8                 | 9.8                 | 9.8                 |
| Ratio of total capital to risk assets  | 13.8                | 13.9                | 13.8                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | <sup>(4)</sup> 9.2  | <sup>(4)</sup> 9.1  | <sup>(4)</sup> 9.2  |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(4)</sup> 12.7 | <sup>(4)</sup> 12.6 | <sup>(4)</sup> 12.7 |
| <b>B. Significant subsidiaries</b>   |                     |                     |                     |
| <b>1. Mercantile Discount Bank LTD. and its consolidated companies</b>             |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 10.7                | 10.6                | 10.9                |
| Ratio of total capital to risk assets  | 13.2                | 13.6                | 13.8                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | <sup>(5)</sup> 9.2  | <sup>(5)</sup> 9.1  | <sup>(5)</sup> 9.2  |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(5)</sup> 12.7 | <sup>(5)</sup> 12.6 | <sup>(5)</sup> 12.7 |
| <b>2. Discount Bakcorp Inc. <sup>(1)</sup></b>                                     |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 13.3                | 12.8                | 13.1                |
| Ratio of total capital to risk assets  | 14.3                | 13.9                | 14.2                |
| Ratio of minimum common equity tier 1 required in accordance with local regulation | <sup>(2)</sup> 4.5  | <sup>(2)</sup> 4.5  | <sup>(2)</sup> 4.5  |
| Minimum total capital adequacy ratio required in accordance with local regulation  | <sup>(2)</sup> 8.0  | <sup>(2)</sup> 8.0  | <sup>(2)</sup> 8.0  |
| <b>3. Israel Credit Cards LTD.</b>   |                     |                     |                     |
| Ratio of common equity tier 1 to risk assets                                       | 14.6                | 14.3                | 14.4                |
| Ratio of total capital to risk assets  | 15.8                | 15.8                | 15.8                |
| Ratio of minimum common equity tier 1 required by the Supervisor of Banks          | 9.0                 | 9.0                 | 9.0                 |
| Minimum total capital adequacy ratio required by the Supervisor of Banks           | <sup>(3)</sup> 12.5 | <sup>(3)</sup> 12.5 | <sup>(3)</sup> 12.5 |

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) Beginning on January 1, 2015, IDB New York became subject to new Basle III capital rules based on the final rules published by the FRB. Capital ratios as of January 1, 2015 are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) In view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) With an addition of 0.18% (September 30, 2016: 0.12% ,December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.18% (September 30, 2016: 0.13% ,December 31, 2016: 0.16%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

## ADDITIONAL INFORMATION REGARDING CAPITAL ADEQUACY NOT INCLUDED IN THE DISCLOSURE REQUIREMENTS OF THE THIRD PILLAR

### Risk weighted assets according to Regulatory Operating Segments

|   | Domestic operations   |                 |                             |                       |                       |                      |                       | International operations  |                     |                     |       |                                | Total   |
|---|-----------------------|-----------------|-----------------------------|-----------------------|-----------------------|----------------------|-----------------------|---------------------------|---------------------|---------------------|-------|--------------------------------|---------|
|   | Households            | Private Banking | Small and minute businesses | Medium businesses     | Large businesses      | Institutional bodies | Financial management  | Total Domestic operations | Private Individuals | Business operations | Other | Total International operations |         |
| in NIS millions   |                       |                 |                             |                       |                       |                      |                       |                           |                     |                     |       |                                |         |
| For the nine months ended September 30, 2017            |                       |                 |                             |                       |                       |                      |                       |                           |                     |                     |       |                                |         |
| Average Risk-assets <sup>(1)</sup>                      | 41,032                | 420             | 37,296                      | 15,196                | 26,170                | 1,546                | 11,853                | 133,513                   | 2,627               | 21,347              | 6     | 23,116                         | 156,629 |
| Balance of Risk-assets at the period end <sup>(1)</sup> | 42,389                | 414             | 39,052                      | 15,615                | 27,119                | 1,439                | 12,001                | 138,029                   | 3,177               | 21,410              | 3     | 22,777                         | 160,806 |
| For the year ended December 31, 2016                    |                       |                 |                             |                       |                       |                      |                       |                           |                     |                     |       |                                |         |
| Average Risk-assets <sup>(1)</sup>                      | <sup>(6)</sup> 37,519 | 404             | <sup>(6)</sup> 33,615       | <sup>(6)</sup> 15,146 | <sup>(6)</sup> 24,680 | 1,294                | <sup>(6)</sup> 11,384 | 124,042                   | 3,801               | 21,720              | 5     | 23,980                         | 148,022 |
| Balance of Risk-assets at the period end <sup>(1)</sup> | <sup>(6)</sup> 39,872 | 386             | <sup>(6)</sup> 35,153       | <sup>(6)</sup> 15,301 | <sup>(6)</sup> 24,640 | 1,552                | <sup>(6)</sup> 11,396 | 128,300                   | 2,996               | 21,132              | 17    | 24,590                         | 152,890 |

Footnote:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Reclassified – see B(2) above.

### Summary of movement and changes in risk-weighted assets

|  | The third quarter of 2017 | The first nine months of 2017 | 2016          |
|--|---------------------------|-------------------------------|---------------|
| in NIS millions                                    |                           |                               |               |
| Balance at the beginning of period                 | 141,756                   | 138,335                       | 127,695       |
| Change in exposures                                |                           |                               |               |
| Realizations (balance-sheet credit)                | 4,394                     | 6,583                         | 11,768        |
| Bonds  | (135)                     | (755)                         | (264)         |
| Derivatives  | 205                       | 162                           | 117           |
| Facilities   | 1,315                     | 2,444                         | 2,334         |
| Guarantees   | 153                       | 971                           | 2,072         |
| Other assets                                       | (31)                      | 76                            | 617           |
| <b>Total Change in exposures</b>                   | <b>5,902</b>              | <b>9,482</b>                  | <b>16,644</b> |
| CCF effect   | (1,218)                   | (2,146)                       | (2,809)       |
| Change in exposures after CCF effect               | 4,684                     | 7,336                         | 13,835        |
| Changes in risk mitigates                          |                           |                               |               |
| Guarantees (replacement)                           | 1,217                     | 1,696                         | 4,219         |
| Financial risk mitigates                           | 660                       | (465)                         | 1,226         |
| <b>Total</b>                                       | <b>1,877</b>              | <b>1,231</b>                  | <b>5,445</b>  |
| CCF effect   | (786)                     | (749)                         | (2,096)       |
| Change in risk mitigates after CCF effect          | 1,091                     | 482                           | 3,349         |
| Change in CVA                                      | 69                        | 229                           | 154           |
| <b>Total Change in credit risk-weighted assets</b> | <b>3,662</b>              | <b>7,083</b>                  | <b>10,640</b> |
| Balance at period end                              | 145,418                   | 145,418                       | 138,335       |

## LEVERAGE RATIO

### COMPARISON BETWEEN BALANCE SHEET ASSETS AND THE MEASUREMENT OF EXPOSURE FOR THE PURPOSE OF THE LEVERAGE RATIO (TABLE 3 A)

|  | September 30,  |                | December 31,   |
|--|----------------|----------------|----------------|
|  | 2017           | 2016           | 2016           |
|  | NIS millions   |                |                |
| Total assets according to the consolidated financial statements  | 219,665        | 213,451        | 219,577        |
| Adjustment in respect of investments in entities in the banking, finance, insurance and commercial fields, consolidated for accounting purposes, but not included in consolidation for regulatory purposes | -              | -              | -              |
| Adjustments in respect of trusteeship assets recognized in the balance sheet according to the Reporting to the Public Directives, but not included in the measurement of exposure of the leverage ratio    | -              | -              | -              |
| Adjustments in respect of derivative financial instruments   | (143)          | (657)          | (922)          |
| Adjustments in respect of SFTs   | 1,069          | 1,302          | 1,398          |
| Adjustments in respect of off-balance sheet items (conversion of off-balance sheet exposure to credit equivalent amounts)  | 23,555         | 21,843         | 22,438         |
| Other adjustments  | 1,508          | 1,162          | 1,409          |
| <b>Exposure for the purpose of the leverage ratio</b>  | <b>245,654</b> | <b>237,101</b> | <b>243,900</b> |

## DISCLOSURE OF THE LEVERAGE RATIO (TABLE 3 B)

|  | September 30,         |                | December 31,          |
|--|-----------------------|----------------|-----------------------|
|  | 2017                  | 2016           | 2016                  |
|  | NIS millions          |                |                       |
| <b>On-balance sheet exposures</b>  |                       |                |                       |
| On-balance sheet items (excluding derivatives and SFTs, but including collateral and group allowance)  | 214,368               | 207,636        | 214,066               |
| Asset amounts deducted in determining Tier 1 capital   | (160)                 | (160)          | (160)                 |
| <b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>   | <b>214,208</b>        | <b>207,476</b> | <b>213,906</b>        |
| <b>Derivative exposures</b>  |                       |                |                       |
| Replacement cost associated with all derivatives transactions  | 1,561                 | 1,301          | 1,168                 |
| Add-on amounts for PFE associated with all derivatives transactions  | 1,622                 | 1,305          | 1,214                 |
| Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Reporting to the Public Directives | --                    | --             | --                    |
| Deductions of receivables assets for cash variation margin provided in derivatives transactions  | --                    | --             | --                    |
| Exempted CCP leg of client-cleared trade exposures   | --                    | --             | --                    |
| Adjusted effective notional amount of written credit derivatives   | --                    | --             | --                    |
| Adjusted effective notional offsets and add-on deductions for written credit derivatives   | --                    | --             | --                    |
| <b>Total derivative exposures</b>  | <b>3,183</b>          | <b>2,606</b>   | <b>2,382</b>          |
| <b>Securities financing transaction exposures</b>  |                       |                |                       |
| Gross SFT assets (with no recognition of netting), after adjusting for transactions treated as an accounting sale                            | 3,639                 | 3,874          | 3,776                 |
| Netted amounts of cash payables and cash receivables of gross SFT assets   | -                     | -              | -                     |
| Credit risk exposure of a central counterparty for SFT assets  | 1,069                 | 1,302          | 1,398                 |
| Agent transaction exposures  | --                    | --             | --                    |
| <b>Total securities financing transaction exposures</b>  | <b>4,708</b>          | <b>5,176</b>   | <b>5,174</b>          |
| <b>Other off-balance sheet exposures</b>   |                       |                |                       |
| Off-balance sheet exposure at gross notional amount  | 79,651                | 73,827         | 76,080                |
| Adjustments for conversion to credit equivalent amounts  | (56,096)              | (51,984)       | (53,642)              |
| <b>Total off-balance sheet items</b>   | <b>23,555</b>         | <b>21,843</b>  | <b>22,438</b>         |
| <b>Capital and total exposures</b>   |                       |                |                       |
| Tier 1 capital   | <sup>(1)</sup> 16,588 | 15,877         | <sup>(1)</sup> 16,104 |
| Total exposures  | 245,654               | 237,101        | 243,900               |
| <b>Leverage ratio</b>  |                       |                |                       |
| Leverage ratio according to Proper Conduct of Banking Business Directive No. 218   | 6.8                   | 6.7            | 6.6                   |

Footnote:

(1) The Tier I capital and the total exposure are presented after the relief granted by the Supervisor of Banks in respect of the 2016 efficiency plan.

## EXPOSURE TO RISKS AND RISK MANAGEMENT

For details regarding the Risk profile of the Discount Group and for details regarding Risk Factors Table, see the 2016 Annual Report, in Chapter C to the Directors and Management Report - "Risks review" (pp. 63-65 and pp. 101-103).

For an additional qualitative general disclosure regarding risk management, (including risk management principles – pp. 27-29, risk management corporate governance – pp. 29-31, risk management tools – pp. 32-33, risk culture and absorption of the usefulness of risk management procedures – pp. 33-36) see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

The Bank considers cyber and data protection risks as well as cross-border risks, as the most significant developing leading risks. For additional details see in the said document (pp. 36-37).

### DRAFTS AND INSTRUCTIONS PUBLISHED DURING THE THIRD QUARTER OF 2017

**Amendment to Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management".** For details see below in "Credit risk".

**Amendment to Proper Conduct of Banking Business Directive No. 315 in the matter of "supplemental allowance for doubtful debts".** For details see below in "Credit risk".

**Amendment of Proper Conduct of Banking Business Directive No. 313 in the matter of "Limitations on indebtedness of a borrower and of a group of borrowers".** For details see below in "Credit risk".

**Letter regarding credit risk relating to the automotive sector.** For details see below in "Credit risk".

**Proper Conduct of Banking Business Directive No. 362 regarding "cloud computing".** For details see below in "information technology risk".

**Proper Conduct of Banking Business Directive regarding the management of credit risk inherent in customer trading activity in derivative instruments and in securities.** For details, see below under "Credit risks".

**Translation of the Basel Committee guidelines in the matter of "the standard approach for the computation of exposure to counterparty credit risk".** For details, see below under "Credit risks".

**A new draft Directive in the matter of "supervision over overseas extensions".** For details see "Other risks" below.

## CREDIT RISKS

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Credit risk is the risk of material impairment to the value of the Group and its ability to attain its goals as a result of deterioration in the ability of a borrower or counterparty to honor their obligations towards the Bank, in whole or in part.

For general details and for qualitative disclosure regarding credit risk management, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 37-44).

**Amendment to Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management".** The Directive was updated in July 2017, with a view of mitigating the requirements regarding the dates for obtaining financial statements from borrowers and solving the timing problem regarding the receipt of financial statements from a borrower which is a corporation. On the other hand, a requirement has been added for obtaining semiannual financial data/statements from a corporation being a large borrower (indebtedness of over NIS 50 million), in order to enable a reliable analysis of the up-to-date financial position of the borrower. The amendments to the Directive takes effect at the beginning of January 2018.

In October 2017 the instruction was updated following the amendment of the Banking Act (Customer service), according to which banks are not allowed to unreasonably refuse the registration of an additional pledge and the realization thereof. The provision instructs a banking corporation holding a first degree pledge on an asset, to take into consideration the implications stemming from the right of the borrower to register a subordinate pledge on the asset in favor of another creditor, and to manage the risks resulting from such right as well as applying care when refusing the registration of another pledge and/or its realization. The Amendment takes effect on date of publication of the update.

**Amendment to Proper Conduct of Banking Business Directive No. 315 in the matter of "supplemental allowance for doubtful debts".** Within the framework of the update carried out in July 2017, banking corporations are required to comply with the limitation on sector indebtedness, so that the indebtedness of a particular sector shall not exceed 20% of total credit to the public, and in certain cases shall not exceed 22%. At the same time, and as part of the effort to facilitate and simplify regulation, the requirement for a supplemental allowance and a general allowance was abolished. The amendments to the Directive takes effect at the beginning of January 2018.

**Amendment of Proper Conduct of Banking Business Directive No. 313 in the matter of "Limitations on indebtedness of a borrower and of a group of borrowers".** Within the framework of the update of October 2017, banking corporations are required to average out in its full amount a guarantee granted by an insurance company, which is recognized as a deduction and which may be acted upon in respect of an indebtedness of a borrower.

In addition, the deductions in respect of the limitations on indebtedness of a borrower have been expanded, so that it is now possible to deduct from the indebtedness of a government corporation having a local rating of "A" and above, the amount of indemnification by an insurance company, the risk weight of which in accordance with Directive No. 203 is 50% at the utmost. The level of deduction from the indebtedness would be 70% of the amount recognized as a credit risk mitigant. The amendments to the Directive take effect on date of publication of the circular.

**Letter regarding credit risk relating to the automotive sector.** In July 2017, the Supervisor of Banks issued a letter to the banking industry regarding the risk involved in credit granted to the automotive sector, in view of the expansion in credit to this sector and in view of indications regarding the rise in the level of risk pertaining to certain of the borrowers in this sector (leasing companies in particular). In accordance with the letter, banks are required to verify that their loan underwriting and control procedures provide an appropriate answer to the rising level of risk. Furthermore, the letter included several instructions regarding the analysis of the risk involved in credit granted to the automotive trading sector and in consumer credit for the purchase of motor vehicles, using stress tests.

**Proper Conduct of Banking Business Directive No. 330 regarding the management of credit risk inherent in customer trading activity in derivative instruments and in securities.** The Directive was published in October 2017, and establishes requirements for the strengthening and improving the manner of risk management at banks, in order to reduce future loss probabilities in this field, following the lessons learnt from the global financial crisis. The Directive applies to trading in derivative instruments and in securities, while focusing on the trading activity of customers engaged in speculative operations.

The Directive replaces Proper Conduct of Banking Business Directive No. 335 regarding futures transactions. The Directive would apply to new transactions (including renewed transactions) as from July 1, 2018, where it has been clarified that the collaterals requirements shall not apply at this stage on a supervised customer, a central bank or another customer who is not engaged in speculative activity, and these would be determined at a later date.

**Translation of the Basel Committee guidelines in the matter of "the standard approach for the computation of exposure to counterparty credit risk".** The document presents a new approach to the measurement of exposure at default (EAD) in respect of a counterparty credit risk, a standard approach (SA-CCR) that is to replace the methods in practice at the present time (standard method – SM and the current exposure method – CEM). These guidelines would be integrated in the future in Appendix "C" to Proper Conduct of Banking Business Directive No. 203.

## CREDIT RISK MITIGATION

For details regarding qualitative disclosure regarding credit risk mitigation, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 44-45).



## CREDIT RISK MITIGATION (TABLE 7)

|  | Gross credit exposure before allowance for credit losses <sup>(1)(2)</sup> | Gross credit exposure after allowance for credit losses <sup>(1)(2)</sup> | Credit exposure covered by eligible financial collateral <sup>(3)(4)</sup> | Total amounts subtracted <sup>(5)</sup> | Total amounts added <sup>(5)</sup> | Net credit exposure |
|--|--|---|--|---|------------------------------------|---------------------|
| in NIS millions                          |  |   |  |   |                                    |                     |
| September 30, 2017                       |  |   |  |   |                                    |                     |
| Sovereigns debts                         | 49,904   | 49,904  | (8)  | (769)                                   | 28                                 | 49,155              |
| Public sector entities debts             | 7,014  | 7,007   | (1)  | -                                       | 950                                | 7,956               |
| Banking corporations debts               | 4,972  | 4,971   | (53)   | (62)                                    | 7,940                              | 12,796              |
| Corporations debts                       | 121,881  | 121,878   | (7,077)  | (12,293)                                | 11,756                             | 114,264             |
| Secured by commercial real estate debts  | 1,817  | 1,810   | (193)  | -                                       | -                                  | 1,617               |
| Retail exposures for private individuals | 54,305   | 54,190  | (1,509)  | (7,520)                                 | -                                  | 45,161              |
| Small business loans                     | 20,536   | 20,321  | (2,731)  | (30)                                    | -                                  | 17,560              |
| Housing mortgages                        | 30,141   | 29,985  | (5)  | -                                       | -                                  | 29,980              |
| Securitization                           | 142  | 142   | -  | -                                       | -                                  | 142                 |
| Other assets                             | 8,794  | 8,794   | -  | -                                       | -                                  | 8,794               |
| <b>Total</b>                             | <b>299,506</b>   | <b>299,002</b>  | <b>(11,577)</b>  | <b>(20,674)</b>                         | <b>20,674</b>                      | <b>287,425</b>      |
| September 30, 2016                       |  |   |  |   |                                    |                     |
| Sovereigns debts                         | 47,670   | 47,669  | (10)   | (170)                                   | 141                                | 47,630              |
| Public sector entities debts             | 7,467  | 7,465   | (1)  | (124)                                   | 434                                | 7,774               |
| Banking corporations debts               | 5,827  | 5,826   | (59)   | (183)                                   | 8,132                              | 13,716              |
| Corporations debts                       | 114,608  | 114,604   | (7,393)  | (9,846)                                 | 9,082                              | 106,447             |
| Secured by commercial real estate debts  | 1,745  | 1,739   | (208)  | -                                       | -                                  | 1,531               |
| Retail exposures for private individuals | 51,442   | 51,164  | (1,613)  | (7,452)                                 | -                                  | 42,099              |
| Small business loans                     | 18,972   | 18,784  | (2,774)  | (14)                                    | -                                  | 15,996              |
| Housing mortgages                        | 27,117   | 26,877  | -  | -                                       | -                                  | 26,877              |
| Securitization                           | 406  | 406   | -  | -                                       | -                                  | 406                 |
| Other assets                             | 9,479  | 9,479   | -  | -                                       | -                                  | 9,479               |
| <b>Total</b>                             | <b>284,733</b>   | <b>284,013</b>  | <b>(12,058)</b>  | <b>(17,789)</b>                         | <b>17,789</b>                      | <b>271,955</b>      |
| December 31, 2016                        |  |   |  |   |                                    |                     |
| Sovereigns debts                         | 53,883   | 53,883  | -  | (364)                                   | 140                                | 53,659              |
| Public sector entities debts             | 7,392  | 7,388   | (1)  | (124)                                   | 635                                | 7,898               |
| Banking corporations debts               | 6,557  | 6,555   | (250)  | (147)                                   | 8,219                              | 14,377              |
| Corporations debts                       | 116,076  | 116,079   | (7,385)  | (10,658)                                | 9,810                              | 107,846             |
| Secured by commercial real estate debts  | 1,734  | 1,728   | (202)  | -                                       | -                                  | 1,526               |
| Retail exposures for private individuals | 52,161   | 52,003  | (1,580)  | (7,496)                                 | -                                  | 42,927              |
| Small business loans                     | 19,120   | 18,912  | (2,745)  | (15)                                    | -                                  | 16,152              |
| Housing mortgages                        | 27,811   | 27,569  | (1)  | -                                       | -                                  | 27,568              |
| Securitization                           | 405  | 405   | -  | -                                       | -                                  | 405                 |
| Other assets                             | 8,502  | 8,502   | -  | -                                       | -                                  | 8,502               |
| <b>Total</b>                             | <b>293,641</b>   | <b>293,024</b>  | <b>(12,164)</b>  | <b>(18,804)</b>                         | <b>18,804</b>                      | <b>280,860</b>      |

## Footnotes:

- (1) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
- (2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the 'add-on' coefficient).
- (3) After when relevant, balance sheet or off balance sheet offset, and after multiplication in security coefficients (haircuts) including positive adjustments added to the exposure.
- (4) Including gold.
- (5) The amount of exposure covered by guaranties is presented as part of the obligations of the counterparty providing the guaranties.

## ADDITIONAL DISCLOSURES

### QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK (TABLE 4 B)

Segmentation of credit risk according to main credit exposure types

#### GROSS CREDIT RISK EXPOSURE

|   | September<br>30, 2017 | Average<br>for the<br>period <sup>(1)</sup> | September<br>30, 2016 | Average<br>for the<br>period <sup>(1)</sup> | December<br>31, 2016 | Average<br>for the<br>period <sup>(1)</sup> |
|---|-----------------------|---|-----------------------|---|----------------------|---|
| in NIS millions   |                       |   |                       |   |                      |   |
| Credit  | 176,892               | 174,687                                     | 165,719               | 160,626                                     | 172,068              | 164,327                                     |
| Bonds   | 31,367                | 32,790                                      | 33,497                | 33,993                                      | 35,080               | 34,078                                      |
| Others <sup>(2)</sup>   | 8,794                 | 8,620                                       | 9,479                 | 9,084                                       | 8,502                | 8,985                                       |
| Guarantees and other liabilities on account of clients <sup>(3)</sup> | 79,269                | 77,104                                      | 73,432                | 72,011                                      | 75,609               | 73,354                                      |
| Transactions in derivative financial instruments <sup>(4)</sup>       | 3,184                 | 2,729                                       | 2,606                 | 2,623                                       | 2,382                | 2,677                                       |
| <b>Total</b>  | <b>299,506</b>        | <b>295,930</b>                              | <b>284,733</b>        | <b>278,337</b>                              | <b>293,641</b>       | <b>283,421</b>                              |

Footnotes:

(1) The average is computed on a quarterly basis.

(2) Primarily: cash, shares, fixed assets.

(3) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).

(4) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

## DISTRIBUTION OF EXPOSURES ACCORDING TO MAIN GEOGRAPHICAL AREAS AND PROBLEMATIC DEBTS ACCORDING TO MAIN GEOGRAPHICAL AREAS

|   | Total Credit Risk <sup>(1)</sup> |  |                            | Debts <sup>(2)</sup> and off-balance sheet Credit Risk (excluding Derivatives) <sup>(3)</sup> |                                   |                            |              |                               |  |  |
|---|----------------------------------|--|----------------------------|---|-----------------------------------|----------------------------|--------------|-------------------------------|--|--|
|   | Total                            | Credit Performance Rating <sup>(6)</sup> | Problematic <sup>(5)</sup> | Credit Losses <sup>(4)</sup>  |                                   |                            |              |                               |  |  |
|   |                                  |  |                            | Total   | Of which: Debts <sup>(2)(7)</sup> | Problematic <sup>(5)</sup> | Impaired     | Periodic Credit Loss Expenses | Net Accounting Write-Offs Recognized during the Period | Balance of Allowance for Credit Losses |
| in NIS millions                                 |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| September 30, 2017                              |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| <b>Lending Activity in Israel</b>               |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 108,116                          | 103,494                                  | 2,950                      | 105,439   | 71,209                            | 2,947                      | 2,041        | 301                           | 360  | 1,311                                  |
| Total Public                                    | 192,156                          | 184,146                                  | 3,711                      | 189,464   | 126,715                           | 3,708                      | 2,120        | 540                           | 530  | 1,999                                  |
| <b>Total Lending Activity in Israel</b>         | <b>217,782</b>                   | <b>209,171</b>                           | <b>3,711</b>               | <b>192,331</b>  | <b>127,764</b>                    | <b>3,708</b>               | <b>2,120</b> | <b>540</b>                    | <b>530</b>   | <b>1,999</b>                           |
| <b>Lending Activity Outside of Israel</b>       |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 40,714                           | 38,215                                   | 1,147                      | 30,625  | 22,977                            | 1,134                      | 568          | 2                             | 11   | 302                                    |
| Total Public                                    | 42,759                           | 40,241                                   | 1,152                      | 32,667  | 24,344                            | 1,139                      | 570          | 3                             | 11   | 320                                    |
| <b>Total Lending Activity Outside of Israel</b> | <b>49,653</b>                    | <b>47,102</b>                            | <b>1,185</b>               | <b>36,263</b>   | <b>27,858</b>                     | <b>1,139</b>               | <b>570</b>   | <b>3</b>                      | <b>11</b>  | <b>320</b>                             |
| <b>TOTAL</b>                                    | <b>267,435</b>                   | <b>256,273</b>                           | <b>4,896</b>               | <b>228,594</b>  | <b>155,622</b>                    | <b>4,847</b>               | <b>2,690</b> | <b>543</b>                    | <b>541</b>   | <b>2,319</b>                           |
| September 30, 2016                              |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| <b>Lending Activity in Israel</b>               |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 98,168                           | 92,986                                   | 3,564                      | 95,851  | 66,476                            | 3,522                      | 2,151        | 34                            | (38)   | 1,428                                  |
| Total Public                                    | 175,708                          | 167,291                                  | 4,266                      | 173,381   | 117,118                           | 4,224                      | 2,205        | 175                           | 74   | 2,026                                  |
| <b>Total Lending Activity in Israel</b>         | <b>201,831</b>                   | <b>193,361</b>                           | <b>4,266</b>               | <b>176,269</b>  | <b>118,559</b>                    | <b>4,224</b>               | <b>2,205</b> | <b>174</b>                    | <b>74</b>  | <b>2,026</b>                           |
| <b>Lending Activity Outside of Israel</b>       |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 43,431                           | 42,328                                   | 774                        | 31,731  | 22,802                            | 760                        | 431          | 72                            | 61   | 320                                    |
| Total Public                                    | 45,594                           | 44,482                                   | 778                        | 33,889  | 24,372                            | 764                        | 431          | 72                            | 61   | 334                                    |
| <b>Total Lending Activity Outside of Israel</b> | <b>54,025</b>                    | <b>52,807</b>                            | <b>869</b>                 | <b>38,627</b>   | <b>28,872</b>                     | <b>764</b>                 | <b>431</b>   | <b>71</b>                     | <b>61</b>  | <b>335</b>                             |
| <b>TOTAL</b>                                    | <b>255,856</b>                   | <b>246,168</b>                           | <b>5,135</b>               | <b>214,896</b>  | <b>147,431</b>                    | <b>4,988</b>               | <b>2,636</b> | <b>245</b>                    | <b>135</b>   | <b>2,361</b>                           |
| December 31, 2016                               |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| <b>Lending Activity in Israel</b>               |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 99,233                           | 93,136                                   | 3,841                      | 97,340  | 66,657                            | 3,815                      | 2,499        | 176                           | 148  | 1,381                                  |
| Total Public                                    | 178,109                          | 168,682                                  | 4,601                      | 176,207   | 118,162                           | 4,575                      | 2,560        | 391                           | 310  | 2,002                                  |
| <b>Total Lending Activity in Israel</b>         | <b>204,278</b>                   | <b>194,849</b>                           | <b>4,601</b>               | <b>178,687</b>  | <b>118,910</b>                    | <b>4,575</b>               | <b>2,560</b> | <b>390</b>                    | <b>310</b>   | <b>2,002</b>                           |
| <b>Lending Activity Outside of Israel</b>       |                                  |  |                            |   |                                   |                            |              |                               |  |  |
| Total Commercial                                | 44,823                           | 43,346                                   | 962                        | 32,495  | 23,143                            | 947                        | 570          | 79                            | 76   | 321                                    |
| Total Public                                    | 47,090                           | 45,599                                   | 970                        | 34,757  | 24,742                            | 955                        | 570          | 81                            | 77   | 337                                    |
| <b>Total Lending Activity Outside of Israel</b> | <b>56,685</b>                    | <b>55,102</b>                            | <b>1,063</b>               | <b>40,094</b>   | <b>29,821</b>                     | <b>955</b>                 | <b>570</b>   | <b>79</b>                     | <b>77</b>  | <b>337</b>                             |
| <b>TOTAL</b>                                    | <b>260,963</b>                   | <b>249,951</b>                           | <b>5,664</b>               | <b>218,781</b>  | <b>148,731</b>                    | <b>5,530</b>               | <b>3,130</b> | <b>469</b>                    | <b>387</b>   | <b>2,339</b>                           |

## Footnotes:

- (1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts<sup>(2)</sup>, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 155,622 million, NIS 33,638 million, NIS 840 million, NIS 3,310 million, NIS 74,025 million, respectively. (As at 30.9.2016 amount of NIS 147,431 million, NIS 36,543 million, NIS 177 million, NIS 3,243 million, NIS 68,462 million, respectively and As at 31.12.2016 amount of NIS 148,731 million, NIS 37,842 million, NIS 440 million, NIS 3,283 million, NIS 70,667 million, respectively).
- (2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.
- (3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
- (4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
- (5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.
- (6) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.
- (7) The balance of commercial debts includes housing loans in the amount of NIS 282 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction. (As at 30.9.2016 amount of NIS 253 million, As at 31.12.2016 amount of NIS 266 million).

## DISTRIBUTION OF THE EXPOSURE ACCORDING TO COUNTERPARTY, CLASSIFIED ACCORDING TO MAIN TYPES OF CREDIT EXPOSURE (TABLE 4 H)

|  | Credit         | Bonds         | Other <sup>(1)</sup> | Guarantees and other liabilities on account of clients <sup>(2)</sup> | Transactions in derivative financial instruments <sup>(3)</sup> | Total          |
|--|----------------|---------------|----------------------|---|---|----------------|
| in NIS millions                          |                |               |                      |   |   |                |
| September 30, 2017                       |                |               |                      |   |   |                |
| Sovereigns                               | 21,657         | 26,573        | -                    | 1,661   | 13  | 49,904         |
| Public sector entities                   | 2,630          | 2,949         | -                    | 1,089   | 346   | 7,014          |
| Banking corporations                     | 2,755          | 649           | -                    | 202   | 1,366   | 4,972          |
| Corporations                             | 77,492         | 1,054         | -                    | 41,914  | 1,421   | 121,881        |
| Secured by commercial real estate        | 1,817          | -             | -                    | -   | -   | 1,817          |
| Retail exposures for private individuals | 27,510         | -             | -                    | 26,763  | 32  | 54,305         |
| Small business loans                     | 14,873         | -             | -                    | 5,659   | 4   | 20,536         |
| Housing mortgages                        | 28,158         | -             | -                    | 1,981   | 2   | 30,141         |
| Securitization                           | -              | 142           | -                    | -   | -   | 142            |
| Other assets                             | -              | -             | 8,794                | -   | -   | 8,794          |
| <b>Total</b>                             | <b>176,892</b> | <b>31,367</b> | <b>8,794</b>         | <b>79,269</b>   | <b>3,184</b>  | <b>299,506</b> |
| September 30, 2016                       |                |               |                      |   |   |                |
| Sovereigns                               | 20,473         | 25,874        | -                    | 1,295   | 28  | 47,670         |
| Public sector entities                   | 2,409          | 3,970         | -                    | 848   | 240   | 7,467          |
| Banking corporations                     | 3,382          | 1,202         | -                    | 349   | 894   | 5,827          |
| Corporations                             | 72,686         | 2,023         | -                    | 38,487  | 1,412   | 114,608        |
| Secured by commercial real estate        | 1,745          | -             | -                    | -   | -   | 1,745          |
| Retail exposures for private individuals | 26,037         | 22            | -                    | 25,357  | 26  | 51,442         |
| Small business loans                     | 13,883         | -             | -                    | 5,085   | 4   | 18,972         |
| Housing mortgages                        | 25,104         | -             | -                    | 2,011   | 2   | 27,117         |
| Securitization                           | -              | 406           | -                    | -   | -   | 406            |
| Other assets                             | -              | -             | 9,479                | -   | -   | 9,479          |
| <b>Total</b>                             | <b>165,719</b> | <b>33,497</b> | <b>9,479</b>         | <b>73,432</b>   | <b>2,606</b>  | <b>284,733</b> |
| December 31, 2016                        |                |               |                      |   |   |                |
| Sovereigns                               | 24,918         | 27,442        | -                    | 1,501   | 22  | 53,883         |
| Public sector entities                   | 2,441          | 3,791         | -                    | 914   | 246   | 7,392          |
| Banking corporations                     | 3,815          | 1,272         | -                    | 352   | 1,118   | 6,557          |
| Corporations                             | 73,161         | 2,170         | -                    | 39,776  | 969   | 116,076        |
| Secured by commercial real estate        | 1,734          | -             | -                    | -   | -   | 1,734          |
| Retail exposures for private individuals | 26,275         | -             | -                    | 25,865  | 21  | 52,161         |
| Small business loans                     | 13,890         | -             | -                    | 5,226   | 4   | 19,120         |
| Housing mortgages                        | 25,834         | -             | -                    | 1,975   | 2   | 27,811         |
| Securitization                           | -              | 405           | -                    | -   | -   | 405            |
| Other assets                             | -              | -             | 8,502                | -   | -   | 8,502          |
| <b>Total</b>                             | <b>172,068</b> | <b>35,080</b> | <b>8,502</b>         | <b>75,609</b>   | <b>2,382</b>  | <b>293,641</b> |

Footnotes:

- (1) Mostly cash, shares, fixed assets.
- (2) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
- (3) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (following the netting effect and after multiplication by the "add-on" coefficient).

## DIVISION OF THE PORTFOLIO ACCORDING TO REMAINING CONTRACTUAL MATURITY PERIODS (TABLE 4 E)

|   | Up to 1 year   | Over 1 year and up to 5 years | Over 5 years  | No fixed maturity date <sup>(2)</sup> | Total Cash Flow        |
|---|----------------|-------------------------------|---------------|---------------------------------------|------------------------|
| in NIS millions   |                |                               |               |                                       |                        |
| <b>September 30, 2017</b>   |                |                               |               |                                       |                        |
| Credit  | 96,499         | 55,695                        | 39,337        | 1,594                                 | <sup>(1)</sup> 193,125 |
| Bonds   | 7,571          | 17,287                        | 13,824        | -                                     | 38,682                 |
| Others <sup>(3)</sup>   | 3,129          | 489                           | 699           | 4,506                                 | 8,823                  |
| Guarantees and other liabilities on account of clients <sup>(4)</sup> | 50,947         | 19,646                        | 7,299         | 1,301                                 | 79,193                 |
| Transactions in derivative financial instruments <sup>(5)</sup>       | 1,933          | 1,474                         | 475           | 503                                   | 4,385                  |
| <b>Total</b>  | <b>160,079</b> | <b>94,591</b>                 | <b>61,634</b> | <b>7,904</b>                          | <b>324,208</b>         |
| <b>September 30, 2016</b>   |                |                               |               |                                       |                        |
| Credit  | 90,168         | 52,899                        | 35,026        | 2,714                                 | 180,807                |
| Bonds   | 6,630          | 15,381                        | 20,089        | -                                     | 42,100                 |
| Others <sup>(3)</sup>   | 3,613          | 504                           | 651           | 4,740                                 | 9,508                  |
| Guarantees and other liabilities on account of clients <sup>(4)</sup> | 49,709         | 16,750                        | 5,704         | 1,221                                 | 73,384                 |
| Transactions in derivative financial instruments <sup>(5)</sup>       | 2,011          | 1,682                         | 456           | 116                                   | 4,265                  |
| <b>Total</b>  | <b>152,131</b> | <b>87,216</b>                 | <b>61,926</b> | <b>8,791</b>                          | <b>310,064</b>         |
| <b>December 31, 2016</b>  |                |                               |               |                                       |                        |
| Credit  | 96,236         | 53,910                        | 36,552        | 1,517                                 | 188,215                |
| Bonds   | 6,993          | 19,592                        | 16,555        | -                                     | 43,140                 |
| Others <sup>(3)</sup>   | 2,458          | 543                           | 693           | 4,843                                 | 8,537                  |
| Guarantees and other liabilities on account of clients <sup>(4)</sup> | 50,315         | 18,148                        | 5,859         | 1,241                                 | 75,563                 |
| Transactions in derivative financial instruments <sup>(5)</sup>       | 1,430          | 1,554                         | 593           | 344                                   | 3,921                  |
| <b>Total</b>  | <b>157,432</b> | <b>93,747</b>                 | <b>60,252</b> | <b>7,945</b>                          | <b>319,376</b>         |

## Footnotes:

- (1) This note presents the anticipated future contractual cash flows in respect of the exposures, according to the remaining periods to the contractual maturity date of each cash flow. The data is shown net of the allowance for credit losses, the allocation of which over periods is made in accordance with an estimate based on the credit periods in respect of which they were made.
- (2) Including assets whose maturity data has passed in the amount of NIS 378 million (September 30, 2016: NIS 450 million, December 31, 2016: NIS 406 million).
- (3) Primarily: cash, shares, fixed assets.
- (4) Off balance sheet credit risk is pre conversion to credit equivalent (pre multiplying by CCF coefficient).
- (5) Presented as calculated for the purpose of limitation on borrowers indebtedness.

## DISTRIBUTION OF THE EXPOSURES ACCORDING TO MAIN SECTORS

| Economic Sectors                                    | September 30, 2017 |                                   |                          | December 31, 2016 |                                   |                          |
|---|--------------------|-----------------------------------|--------------------------|-------------------|-----------------------------------|--------------------------|
|   | Total credit risk  | Of which: Problematic credit risk | Rate of problematic risk | Total credit risk | Of which: Problematic credit risk | Rate of problematic risk |
|   | in NIS millions    |                                   | %                        | in NIS millions   |                                   | %                        |
| Industry  | 20,676             | 637                               | 3.1                      | 19,648            | 657                               | 3.3                      |
| Construction and real estate - construction         | 25,456             | 399                               | 1.6                      | 22,535            | 483                               | 2.1                      |
| Construction and real estate - real estate activity | 20,191             | 607                               | 3.0                      | 19,511            | 451                               | 2.3                      |
| Commerce  | 26,901             | 753                               | 2.8                      | 26,650            | 1,105                             | 4.1                      |
| Financial services                                  | 20,362             | 732                               | 3.6                      | 21,063            | 766                               | 3.6                      |
| Private individuals - housing loans                 | 30,061             | 302                               | 1.0                      | 27,761            | 328                               | 1.2                      |
| Private individuals - other                         | 56,024             | 464                               | 0.8                      | 53,382            | 440                               | 0.8                      |
| Other Sectors                                       | 35,244             | 969                               | 2.7                      | 34,649            | 1,341                             | 3.9                      |
| <b>Total Public</b>                                 | <b>234,915</b>     | <b>4,863</b>                      | <b>2.1</b>               | <b>225,199</b>    | <b>5,571</b>                      | <b>2.5</b>               |
| Banks   | 6,001              | 33                                | 0.5                      | 9,189             | 93                                | 1.0                      |
| Governments   | 26,519             | -                                 | -                        | 26,575            | -                                 | -                        |
| <b>Total</b>  | <b>267,435</b>     | <b>4,896</b>                      | <b>1.8</b>               | <b>260,963</b>    | <b>5,664</b>                      | <b>2.2</b>               |

## CHANGE IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES (TABLE 4 H)

|   | Credit to the public |                                     |                                   |              |                       |              |
|---|----------------------|-------------------------------------|-----------------------------------|--------------|-----------------------|--------------|
|   | Commercial           | Private Individuals - Housing Loans | Private Individuals - Other Loans | Total        | Banks and Governments | Total        |
|   |                      | In NIS millions                     |                                   |              |                       |              |
| Nine months ended September 30, 2017                                    |                      |                                     |                                   |              |                       |              |
| Balance of allowance for credit losses, as at December 31, 2016         | 1,702                | 168                                 | 469                               | 2,339        | -                     | 2,339        |
| Expenses for credit loss  | 303                  | 9                                   | 231                               | 543          | -                     | 543          |
| Accounting write-offs   | (590)                | (4)                                 | (310)                             | (904)        | -                     | (904)        |
| Collection of debts written-off in previous years                       | 219                  | -                                   | 144                               | 363          | -                     | 363          |
| Net accounting write-offs   | (371)                | (4)                                 | (166)                             | (541)        | -                     | (541)        |
| Financial statements translation adjustments                            | (21)                 | -                                   | (1)                               | (22)         | -                     | (22)         |
| <b>Balance of allowance for credit losses, as at September 30, 2017</b> | <b>1,613</b>         | <b>173</b>                          | <b>533</b>                        | <b>2,319</b> | <b>-</b>              | <b>2,319</b> |
| Of which: In respect of off-balance sheet credit instruments            | 163                  | -                                   | 37                                | 200          | -                     | 200          |
| Nine months ended September 30, 2016                                    |                      |                                     |                                   |              |                       |              |
| Balance of allowance for credit losses, as at December 31, 2015         | 1,675                | 176                                 | 407                               | 2,258        | 3                     | 2,261        |
| Expenses (expenses reversal) for credit loss                            | 106                  | 6                                   | 135                               | 247          | (2)                   | 245          |
| Accounting write-offs   | (247)                | (17)                                | (232)                             | (496)        | -                     | (496)        |
| Collection of debts written-off in previous years                       | 224                  | -                                   | 137                               | 361          | -                     | 361          |
| Net accounting write-offs   | (23)                 | (17)                                | (95)                              | (135)        | -                     | (135)        |
| Financial statements translation adjustments                            | (10)                 | -                                   | -                                 | (10)         | -                     | (10)         |
| <b>Balance of allowance for credit losses, as at September 30, 2016</b> | <b>1,748</b>         | <b>165</b>                          | <b>447</b>                        | <b>2,360</b> | <b>1</b>              | <b>2,361</b> |
| Of which: In respect of off-balance sheet credit instruments            | 153                  | -                                   | 32                                | 185          | -                     | 185          |

**Exposure amounts according to risk weights<sup>(2)(1)</sup> (Table 5)****AMOUNT OF EXPOSURE AFTER ALLOWANCE FOR CREDIT LOSSES AND BEFORE CREDIT RISK MITIGATION**

|  | 0%            | 2%           | 20%           | 35%           | 50%           | 75%           | 100%           | 150%         | 250%         | Total          |
|--|---------------|--------------|---------------|---------------|---------------|---------------|----------------|--------------|--------------|----------------|
| in NIS millions                          |               |              |               |               |               |               |                |              |              |                |
| September 30, 2017                       |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 46,627        | -            | 2,155         | -             | -             | -             | 1,122          | -            | -            | 49,904         |
| Public sector entities                   | -             | -            | 4,320         | -             | 2,678         | -             | 6              | 3            | -            | 7,007          |
| Banking corporations                     | -             | -            | 3,895         | -             | 1,012         | -             | 64             | -            | -            | 4,971          |
| Corporations                             | -             | 1,111        | 1,640         | -             | 526           | -             | 116,893        | 1,708        | -            | 121,878        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,808          | 2            | -            | 1,810          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 53,910        | 130            | 150          | -            | 54,190         |
| Small business loans                     | -             | -            | -             | -             | -             | 20,056        | 70             | 195          | -            | 20,321         |
| Housing mortgages                        | -             | -            | -             | 11,416        | 7,481         | 10,211        | 821            | 56           | -            | 29,985         |
| Securitization                           | -             | -            | 142           | -             | -             | -             | -              | -            | -            | 142            |
| Other                                    | 2,816         | -            | 60            | -             | -             | -             | 3,203          | 1,025        | 1,690        | 8,794          |
| <b>Total</b>                             | <b>49,443</b> | <b>1,111</b> | <b>12,212</b> | <b>11,416</b> | <b>11,697</b> | <b>84,177</b> | <b>124,117</b> | <b>3,139</b> | <b>1,690</b> | <b>299,002</b> |
| September 30, 2016                       |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 45,178        | -            | 2,221         | -             | 9             | -             | 261            | -            | -            | 47,669         |
| Public sector entities                   | -             | -            | 5,418         | -             | 2,029         | -             | 18             | -            | -            | 7,465          |
| Banking corporations                     | -             | -            | 4,890         | -             | 786           | -             | 150            | -            | -            | 5,826          |
| Corporations                             | -             | -            | 2,223         | -             | 599           | -             | 110,404        | 1,378        | -            | 114,604        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,735          | 4            | -            | 1,739          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 50,862        | 155            | 147          | -            | 51,164         |
| Small business loans                     | -             | -            | -             | -             | -             | 18,554        | 56             | 174          | -            | 18,784         |
| Housing mortgages                        | -             | -            | -             | 11,701        | 5,621         | 8,930         | 569            | 56           | -            | 26,877         |
| Securitization                           | -             | -            | 394           | -             | 12            | -             | -              | -            | -            | 406            |
| Other                                    | 3,115         | -            | 127           | -             | -             | -             | 3,534          | 1,079        | 1,624        | 9,479          |
| <b>Total</b>                             | <b>48,293</b> | <b>-</b>     | <b>15,273</b> | <b>11,701</b> | <b>9,056</b>  | <b>78,346</b> | <b>116,882</b> | <b>2,838</b> | <b>1,624</b> | <b>284,013</b> |
| December 31, 2016                        |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 50,998        | -            | 2,363         | -             | 5             | -             | 517            | -            | -            | 53,883         |
| Public sector entities                   | -             | -            | 5,256         | -             | 2,115         | -             | 17             | -            | -            | 7,388          |
| Banking corporations                     | -             | -            | 5,075         | -             | 1,371         | -             | 109            | -            | -            | 6,555          |
| Corporations                             | -             | -            | 2,280         | -             | 583           | -             | 111,284        | 1,932        | -            | 116,079        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,718          | 10           | -            | 1,728          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 51,707        | 123            | 173          | -            | 52,003         |
| Small business loans                     | -             | -            | -             | -             | -             | 18,618        | 76             | 218          | -            | 18,912         |
| Housing mortgages                        | -             | -            | -             | 10,921        | 6,404         | 9,495         | 696            | 53           | -            | 27,569         |
| Securitization                           | -             | -            | 399           | -             | 6             | -             | -              | -            | -            | 405            |
| Other                                    | 2,366         | -            | 12            | -             | -             | -             | 3,384          | 1,158        | 1,582        | 8,502          |
| <b>Total</b>                             | <b>53,364</b> | <b>-</b>     | <b>15,385</b> | <b>10,921</b> | <b>10,484</b> | <b>79,820</b> | <b>117,924</b> | <b>3,544</b> | <b>1,582</b> | <b>293,024</b> |

For footnotes, see next page.

## AMOUNT OF EXPOSURE AFTER ALLOWANCE FOR CREDIT LOSSES AND AFTER CREDIT RISK MITIGATION

|  | 0%            | 2%           | 20%           | 35%           | 50%           | 75%           | 100%           | 150%         | 250%         | Total          |
|--|---------------|--------------|---------------|---------------|---------------|---------------|----------------|--------------|--------------|----------------|
| in NIS millions                          |               |              |               |               |               |               |                |              |              |                |
| September 30, 2017                       |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 46,653        | -            | 2,155         | -             | -             | -             | 347            | -            | -            | 49,155         |
| Public sector entities                   | 950           | -            | 4,320         | -             | 2,678         | -             | 5              | 3            | -            | 7,956          |
| Banking corporations                     | -             | -            | 5,608         | -             | 7,132         | -             | 56             | -            | -            | 12,796         |
| Corporations                             | -             | 1,111        | 13,228        | -             | 693           | -             | 97,578         | 1,654        | -            | 114,264        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,615          | 2            | -            | 1,617          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 44,910        | 107            | 144          | -            | 45,161         |
| Small business loans                     | -             | -            | -             | -             | -             | 17,315        | 64             | 181          | -            | 17,560         |
| Housing mortgages                        | -             | -            | -             | 11,416        | 7,481         | 10,206        | 821            | 56           | -            | 29,980         |
| Securitization                           | -             | -            | 142           | -             | -             | -             | -              | -            | -            | 142            |
| Other                                    | 2,816         | -            | 60            | -             | -             | -             | 3,203          | 1,025        | 1,690        | 8,794          |
| <b>Total</b>                             | <b>50,419</b> | <b>1,111</b> | <b>25,513</b> | <b>11,416</b> | <b>17,984</b> | <b>72,431</b> | <b>103,796</b> | <b>3,065</b> | <b>1,690</b> | <b>287,425</b> |
| September 30, 2016                       |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 45,319        | -            | 2,214         | -             | 9             | -             | 88             | -            | -            | 47,630         |
| Public sector entities                   | 434           | -            | 5,417         | -             | 1,905         | -             | 18             | -            | -            | 7,774          |
| Banking corporations                     | -             | -            | 6,621         | -             | 6,959         | -             | 136            | -            | -            | 13,716         |
| Corporations                             | -             | -            | 11,155        | -             | 750           | -             | 93,171         | 1,371        | -            | 106,447        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,527          | 4            | -            | 1,531          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 41,829        | 129            | 141          | -            | 42,099         |
| Small business loans                     | -             | -            | -             | -             | -             | 15,790        | 46             | 160          | -            | 15,996         |
| Housing mortgages                        | -             | -            | -             | 11,701        | 5,621         | 8,930         | 569            | 56           | -            | 26,877         |
| Securitization                           | -             | -            | 394           | -             | 12            | -             | -              | -            | -            | 406            |
| Other                                    | 3,115         | -            | 127           | -             | -             | -             | 3,534          | 1,079        | 1,624        | 9,479          |
| <b>Total</b>                             | <b>48,868</b> | <b>-</b>     | <b>25,928</b> | <b>11,701</b> | <b>15,256</b> | <b>66,549</b> | <b>99,218</b>  | <b>2,811</b> | <b>1,624</b> | <b>271,955</b> |
| December 31, 2016                        |               |              |               |               |               |               |                |              |              |                |
| Sovereigns                               | 51,138        | -            | 2,363         | -             | 5             | -             | 153            | -            | -            | 53,659         |
| Public sector entities                   | 635           | -            | 5,255         | -             | 1,991         | -             | 17             | -            | -            | 7,898          |
| Banking corporations                     | -             | -            | 6,746         | -             | 7,536         | -             | 95             | -            | -            | 14,377         |
| Corporations                             | -             | -            | 12,059        | -             | 614           | -             | 93,249         | 1,924        | -            | 107,846        |
| Commercial real estate                   | -             | -            | -             | -             | -             | -             | 1,516          | 10           | -            | 1,526          |
| Retail exposures for private individuals | -             | -            | -             | -             | -             | 42,659        | 103            | 165          | -            | 42,927         |
| Small business loans                     | -             | -            | -             | -             | -             | 15,890        | 63             | 199          | -            | 16,152         |
| Housing mortgages                        | -             | -            | -             | 10,922        | 6,404         | 9,493         | 696            | 53           | -            | 27,568         |
| Securitization                           | -             | -            | 399           | -             | 6             | -             | -              | -            | -            | 405            |
| Other                                    | 2,366         | -            | 12            | -             | -             | -             | 3,384          | 1,158        | 1,582        | 8,502          |
| <b>Total</b>                             | <b>54,139</b> | <b>-</b>     | <b>26,834</b> | <b>10,922</b> | <b>16,556</b> | <b>68,042</b> | <b>99,276</b>  | <b>3,509</b> | <b>1,582</b> | <b>280,860</b> |

## Footnotes:

- (1) Off balance sheet credit risk is started prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
- (2) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the 'add-on' coefficient).



### General disclosure regarding exposure related to counterparty credit risk

Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction. For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 53-54).

### DISCLOSURE REGARDING DERIVATIVES (TABLE 8)

|   | September 30,   |              | December 31, |
|---|-----------------|--------------|--------------|
|   | 2017            | 2016         | 2016         |
|   | in NIS millions |              |              |
| Gross positive fair value of contracts <sup>(1)</sup> |                 |              |              |
| Interest rate contracts:                              |                 |              |              |
| Shekel/CPI  | 194             | 177          | 178          |
| Other   | 1,352           | 1,893        | 1,606        |
| Foreign currency contracts                            | 1,248           | 1,038        | 1,140        |
| Contracts on shares                                   | 538             | 157          | 380          |
| Commodities and other contracts                       | 1               | -            | -            |
| Total Gross positive fair value of contracts          | 3,333           | 3,265        | 3,304        |
| Potential off balance sheet exposure <sup>(2)</sup>   | 2,712           | 2,251        | 1,898        |
| Netting benefits                                      | (2,861)         | (2,910)      | (2,820)      |
| Current credit exposure after netting <sup>(2)</sup>  | 3,184           | 2,606        | 2,382        |
| Held collateral                                       | (229)           | (264)        | (437)        |
| <b>Net credit exposure in respect of derivatives</b>  | <b>2,955</b>    | <b>2,342</b> | <b>1,945</b> |

Footnotes:

- (1) Including embedded derivatives in the amount of NIS 23 million (December 31, 2016 NIS 21 million, September 30, 2016 NIS 23 million).
- (2) Potential off-balance sheet credit exposure with respect to derivative instruments is calculated based on the notional principal amount of the entire counter-party portfolio, multiplied by the "Add-on" coefficient.

### Activity in Derivative Financial Instruments

The Bank's operations in derivative financial instruments involve special risk factors, including credit risk. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein. For further details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 53-55).

Note 11 to the condensed financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis.

Appendix 5 contains further details of the data presented in the said Part B of the Note.

### Securitization exposure

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS).

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 55).

**Securitization exposure (Table 9)**

The securitization exposure included in the following table does not include mortgage backed securities issued by GNMA, FNMA and FHLMC. This, due to the fact that all layers of the said securities reflect identical credit risk.

**Securitization exposure**

|  | Total exposure |            |             |
|--|----------------|------------|-------------|
|  | September 30   |            | December 31 |
|  | 2017           | 2016       | 2016        |
| Mortgage-backed securities (MBS):  |                |            |             |
| Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS) | -              | 31         | 17          |
| <b>Total mortgage-backed securities</b>                                  | <b>-</b>       | <b>31</b>  | <b>17</b>   |
| Asset-backed securities (ABS):   |                |            |             |
| Collateralized bonds CLO   | 142            | 375        | 388         |
| <b>Total asset-backed securities</b>                                     | <b>142</b>     | <b>375</b> | <b>388</b>  |
| <b>Total mortgage and asset-backed securities</b>                        | <b>142</b>     | <b>406</b> | <b>405</b>  |

|               | September 30          |                       | December 31           |                       |                       |
|---------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|               | 2017                  | 2016                  | 2016                  |                       | Capital               |
|               | Exposure requirements | Exposure requirements | Exposure requirements | Exposure requirements | Exposure requirements |
|               | 12.7%                 |                       | 12.6%                 |                       | 12.7%                 |
|               | in NIS millions       |                       |                       |                       |                       |
| Risk weights: |                       |                       |                       |                       |                       |
| 20%           | 142                   | 4                     | 394                   | 10                    | 399                   |
| 50%           | -                     | -                     | 12                    | 1                     | 6                     |
| <b>Total</b>  | <b>142</b>            | <b>4</b>              | <b>406</b>            | <b>11</b>             | <b>405</b>            |

**Additional disclosure regarding credit risk in respect of significant exposure to groups of borrowers**

The banking corporations are required to include in their reports, information regarding the existing credit risk at the reporting date with respect to groups of borrowers, the net indebtedness of whom, on a consolidated basis, after the permitted deductions according to Section 5 of Proper Conduct of Banking Business Directive No. 313, exceeds 15% of the equity of the banking corporation.

The Bank maintains a continuous monitoring process over the large borrowers groups, performs periodic reviews assessing the risk attributed to each group, and as regards certain of the groups, even performs an examination of the stress tests and their effect on the repayment ability. The Bank complies with all regulatory restrictions relating to concentration of borrowers and groups of borrowers.

Additional details regarding the credit risks – including: quality of the credit and problematic credit risk, the total credit risk by economic sectors; exposure to foreign countries; credit exposure to foreign financial institutions; credit risks in housing loans; Credit risk of private individuals (excluding housing credit risk); Credit risk in relation to the construction and real estate sector, credit risk in respect of leveraged finance – presented in Chapter C of the Directors and Management Report regarding "Risks review" and in Note 14 to the condensed financial statements as of June 30, 2017.

## Exposure to commercial mortgage backed securities (CMBS)

IDB New York held commercial mortgage backed securities (CMBS). Due to redemptions during the period, the Bank had no balance of balance sheet exposure as at September 30, 2017. For further details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 56).

## MARKET RISKS

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Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets and in fluctuations of these market risk factors which have an effect on the accounting or economic value of the Bank's assets and liabilities, (balance-sheet and off-balance-sheet) and which includes several sub-risks, as detailed below:

**Interest risk** – risk applying to profits or to the capital stemming from fluctuations in interest rates:

- Return graph risk - the risk arises when unexpected fluctuations in the return graph adversely affect the economic or accounting value of the capital. These fluctuations stem from changes in the relation between interest rates for different maturity dates;
- Risk of renewed pricing – a risk stemming from timing differences between maturity periods (at fixed interest rates) and the dates of renewed pricing (at variable interest rates) of assets, liabilities and off-balance sheet positions. This risk includes also the spread risk stemming from changes in spreads between riskless interest graphs and interest rates used for the pricing of assets and liabilities;
- Interest base risk – the risk stemming from an imperfect correlation of changes in interest rates serving as a basis for the pricing of different assets and liabilities on the financial markets;
- Optional risk – a change in timing or scope of cash flows produced by a financial instrument following changes in market interest rates and its fluctuations.

**Linkage base risk** – The risk of impairment to the economic or accounting value of the capital that might occur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and the value of liabilities including the off-balance-sheet activity;

**Shares, commodities and nonfinancial investments risk** – the risk of impairment in the value of the Bank and its profitability stemming from changes in prices of shares, commodities and in the value of nonfinancial investments;

**Options risk** – the risk of a loss stemming from changes in parameters affecting the value of options, including inherent options and derivative financial instruments, while taking into account the fluctuations in prices of underlying assets.

Market risks are presented in this review on a Group basis, including the Bank, Mercantile Discount Bank, IDB New York, ICC and BLD, the severance pay fund for the Bank's employees (hereunder in this section: "the Group"). The other group companies do not have material exposure to market risk.

## QUANTITATIVE DISCLOSURE

### (1) INTEREST RISK EXPOSURE

#### A. General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. Management of interest risk exposure is performed for each of the linkage segments separately.

## B. Sensitivity analysis to the effect of changes in interest rate based on the fair value of financial instruments

**Fair value of financial instruments.** Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date.

Discounting the future cash flows was made, where possible, by discount rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity, neither do they include the tax effect.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

**Hybrid financial instruments** are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements as of December 31, 2016 (pp. 290-291).

Following are certain updates as of September 30, 2017:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 2 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired debts by NIS 1 million (compared to NIS 16 million and NIS 1 million, respectively, as of December 31, 2016);
- Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 5 million (compared to an increase of NIS 110 million as at December 31, 2016);
- The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.89 years on September 30, 2017, compared to 3.51 years, taking into consideration the forecast for early redemptions (compared to 4.06 years and 3.61 years, respectively, as of December 31, 2016);

- Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 43 million (compared to NIS 55 million at December 31, 2016);
- The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 2.87 years on September 30, 2017, compared to 2.69 years, taking into consideration the forecast for early redemption (compared to 3.04 years and 2.84 years, respectively, as of December 31, 2016).

**Fair value of the Bank and its consolidated subsidiaries' financial instruments, excluding non-monetary items (before the effect of hypothetical changes in interest rate)**

|  | Israeli currency |              | Foreign currency <sup>(2)</sup> |           |              | Total         |
|--|------------------|--------------|---------------------------------|-----------|--------------|---------------|
|  | Non linked       | CPI linked   | US dollar                       | Euro      | Other        |               |
| In NIS millions  |                  |              |                                 |           |              |               |
| September 30, 2017   |                  |              |                                 |           |              |               |
| Financial assets <sup>(1)</sup>  | 145,507          | 19,064       | 42,312                          | 3,326     | 1,295        | 211,504       |
| Amounts receivable in respect of derivative and off balance sheet financial instruments <sup>(3)</sup> | 70,596           | 5,160        | 81,748                          | 17,071    | 11,105       | 185,680       |
| Financial liabilities <sup>(1)</sup>   | (126,940)        | (11,953)     | (50,807)                        | (6,223)   | (2,355)      | (198,278)     |
| Amounts payable in respect of derivative and off balance sheet financial instruments <sup>(3)</sup>    | (83,011)         | (8,782)      | (70,295)                        | (14,133)  | (9,675)      | (185,896)     |
| <b>Net fair value of financial instruments</b>   | <b>6,152</b>     | <b>3,489</b> | <b>2,958</b>                    | <b>41</b> | <b>370</b>   | <b>13,010</b> |
| December 31, 2016  |                  |              |                                 |           |              |               |
| Financial assets <sup>(1)</sup>  | 137,120          | 20,398       | 48,032                          | 3,162     | 1,624        | 210,336       |
| Amounts receivable in respect of derivative and off balance sheet financial instruments <sup>(3)</sup> | 70,995           | 4,803        | 78,071                          | 11,511    | 8,379        | 173,759       |
| Financial liabilities <sup>(1)</sup>   | (121,147)        | (13,047)     | (55,409)                        | (6,981)   | (2,462)      | (199,046)     |
| Amounts payable in respect of derivative and off balance sheet financial instruments <sup>(3)</sup>    | (82,840)         | (8,342)      | (67,591)                        | (7,610)   | (7,647)      | (174,030)     |
| <b>Net fair value of financial instruments</b>   | <b>4,128</b>     | <b>3,812</b> | <b>3,103</b>                    | <b>82</b> | <b>(106)</b> | <b>11,019</b> |

For footnotes, see next page.

**Effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-monetary items**

| Change in interest rate             | Net fair value of financial instruments, after the effect of changes in interest rate <sup>(4)</sup> |            |                                 |      |       |                    | Change in fair value |         |       |
|-------------------------------------|--|------------|---------------------------------|------|-------|--------------------|----------------------|---------|-------|
|                                     | Israeli currency   |            | Foreign currency <sup>(2)</sup> |      |       |                    | Total                | Total   | Total |
|                                     | Non-linked   | CPI linked | US dollar                       | Euro | Other | Offsetting effects |                      |         |       |
|                                     | in NIS millions  |            |                                 |      |       |                    |                      |         | in %  |
|                                     | September 30, 2017   |            |                                 |      |       |                    |                      |         |       |
| Immediate parallel increase of 1%   | 5,796  | 3,283      | 2,546                           | 29   | 370   | (29)               | 11,995               | (1,015) | (8%)  |
| Immediate parallel increase of 0.1% | 6,112  | 3,471      | 2,913                           | 39   | 370   | -                  | 12,905               | (105)   | (1%)  |
| Immediate parallel decrease of 1%   | 6,917  | 3,763      | 3,240                           | 76   | 370   | (30)               | 14,336               | 1,326   | 10%   |
|                                     | December 31, 2016  |            |                                 |      |       |                    |                      |         |       |
| Immediate parallel increase of 1%   | 3,855  | 3,573      | 2,656                           | 78   | (106) | (21)               | 10,035               | (984)   | (9%)  |
| Immediate parallel increase of 0.1% | 4,097  | 3,790      | 3,056                           | 82   | (107) | -                  | 10,918               | (101)   | (1%)  |
| Immediate parallel decrease of 1%   | 4,715  | 4,108      | 3,434                           | 107  | (105) | (22)               | 12,237               | 1,218   | 11%   |

## Footnotes:

- (1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.
- (2) Including Israeli currency linked to foreign currency.
- (3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 16 to the condensed financial statements.
- (4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

**Summary of the Bank's and its consolidated subsidiaries' exposure to fluctuations in interest rates, including the internal rate of return (IRR) and the average maturity, as per the various linkage segments including assumptions regarding early repayments**

|                             | As at September 30, 2017 |             |  | As at December 31, 2016 |             |  |
|-----------------------------|--------------------------|-------------|--|-------------------------|-------------|--|
|                             | Shekels                  |             | Foreign currency and foreign currency linked | Shekels                 |             | Foreign currency and foreign currency linked |
|                             | Non-linked               | CPI linked  |  | Non-linked              | CPI linked  |  |
|                             | In NIS millions          |             |  |                         |             |  |
| Total Assets                | 216,103                  | 24,224      | 156,857                                      | 208,115                 | 25,201      | 150,779                                      |
| Total Liabilities           | 209,951                  | 20,735      | 153,488                                      | 203,987                 | 21,389      | 147,700                                      |
| Average maturity (years):   |                          |             |  |                         |             |  |
| Assets                      | 1.06                     | 3.51        | 1.17   | 0.87                    | 3.61        | 1.21   |
| Liabilities                 | 0.73                     | 2.69        | 1.02   | 0.72                    | 2.84        | 0.91   |
| <b>Average maturity gap</b> | <b>0.33</b>              | <b>0.82</b> | <b>0.15</b>                                  | <b>0.15</b>             | <b>0.77</b> | <b>0.30</b>                                  |
| <b>IRR gap</b>              | <b>2.77</b>              | <b>2.00</b> | <b>1.46</b>                                  | <b>2.57</b>             | <b>1.07</b> | <b>2.07</b>                                  |

### C. Sensitivity analysis according to data used for interest exposure management (hereinafter: "economic exposure")

The data presented in item "B" above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks.

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:

- (a) The distribution of deposits with no maturity date is made only in computing the economic exposure;
- (b) Liability for employee rights are included in the economic calculation and are not included in the calculation on a fair value basis;
- (c) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;
- (d) Commitments to grant future credit to customers at fixed interest rates are included in economic exposure, but are not included in the fair value exposure;
- (e) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;
- (f) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.;
- (g) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.

#### Details of the effect of hypothetical changes in interest rates of 100 base points on the Group's economic value

| The change in interest rates                 | Non-linked | CPI linked | US dollar | Other foreign currency | Total |
|--|------------|------------|-----------|------------------------|-------|
| In NIS millions                              |            |            |           |                        |       |
| For the nine months ended September 30, 2017 |            |            |           |                        |       |
| An increase of 100BP in interest rates       | (83)       | (60)       | (59)      | 11                     | (191) |
| A decrease of 100BP in interest rates        | 251        | 53         | (107)     | (12)                   | 185   |
| For the year ended December 31, 2016         |            |            |           |                        |       |
| An increase of 100BP in interest rates       | (178)      | ()         | (90)      | 10                     | (258) |
| A decrease of 100BP in interest rates        | 242        | 2          | (103)     | 1                      | 141   |

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

### RELATION BETWEEN BALANCE SHEET ITEMS AND THE POSITIONS INCLUDED IN THE DISCLOSURE OF MARKET RISK

The Group differentiates between two classes of portfolios: the trading portfolio and the banking book. These portfolios differ in the nature of exposure to market risks, reflected also in the management tools used in managing their market risks.

- The trading portfolio comprises of positions in financial instruments held for trading or with the aim of earning gains in the short-term. These positions are marketable and may be hedged in full. As a general rule, the trading portfolio is held by the dealing room and in trading bonds portfolios held by the "Nostro" unit.
- The banking book – all balance sheet assets and liabilities and the off-balance sheet items of the Group that are not included in the trading portfolio.

Risk indices used for the management of market risk in the trading portfolio include VaR, stress tests and limitations on specific operations, such as: limitations in scenario terms on interest rate risks, limitations in "Greek" terms on transactions in options, etc. The risk indices used for market risk management relating to the banking book, are presented in details in the item regarding additional information as to exposure to market risks, above.

#### Relation between balance sheet items and the positions included in the disclosure of market risk

| Assets                                     | Affect of 100<br>BP for end of<br>quarter | Affect of 100<br>BP for end of<br>reporting year | Liabilities               | Affect of 100<br>BP for end of<br>quarter | Affect of 100<br>BP for end of<br>reporting year |
|--|---|--|---------------------------|---|--|
|  | September<br>30, 2017                     | December 31,<br>2016                             |                           | September<br>30, 2017                     | December 31,<br>2016                             |
| In NIS millions                            |   |  |                           |   |  |
| Credit                                     | 1,537                                     | 1,370  | Deposits                  | 713                                       | 772  |
| Available-for-sale securities<br>portfolio | 753                                       | 1,059  | Debt notes                | 266                                       | 287  |
| Trading securities portfolio               | 86  | 53   | Off balance-sheet         | 275                                       | 321  |
| Held-to-maturity securities<br>portfolio   | 133                                       | 166  | Current account spreading | 859                                       | 765  |
| Off balance-sheet                          | -   | -  | Employees rights          | 260                                       | 296  |
| Other                                      | 52  | 49   | Other                     | (2)                                       | -  |
| <b>Total</b>                               | <b>2,561</b>                              | <b>2,698</b>                                     | <b>Total</b>              | <b>2,370</b>                              | <b>2,440</b>                                     |

#### D. The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and includes the Bank's activity in the granting of credit, in the purchase of securities and in attracting deposits and the issuance of capital notes. This activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk appetite.

#### Details of the effect of parallel changes of 100 base points in the interest rate applying to the banking book

| The change in interest rates                 | Non-linked | CPI linked | US dollar | Other foreign<br>currency | Total |
|--|------------|------------|-----------|---------------------------|-------|
| In NIS millions                              |            |            |           |                           |       |
| For the nine months ended September 30, 2017 |            |            |           |                           |       |
| An increase of 100BP in interest rates       | (38)       | (43)       | (54)      | 15                        | (105) |
| A decrease of 100BP in interest rates        | 202        | 35         | (128)     | (15)                      | 95    |
| For the year ended December 31, 2016         |            |            |           |                           |       |
| An increase of 100BP in interest rates       | (196)      | 17         | (58)      | 7                         | (230) |
| A decrease of 100BP in interest rates        | 299        | (17)       | (134)     | (3)                       | 145   |

For details regarding models and risk indices, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 66-70).

#### Principal indices for management

**Index for the sensitivity of economic value to changes in interest rates.** For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 66-67).



**Details of the Group exposure and limitations - in the index of economic value sensitivity to parallel changes in interest graphs by 100 base points (the EVE Model)**

|   | For the period ended on   |  |                       |                                  |
|---|---------------------------|--|-----------------------|----------------------------------|
|   | September 30, 2017        |  | December 31, 2016     |                                  |
|   | End of third quarter 2017 | Maximum exposure during the first three quarters of 2017 | End of reporting year | Maximum exposure during the year |
| in NIS millions                                 |                           |  |                       |                                  |
| Actual exposure                                 | (191)                     | (238)  | (258)                 | (258)                            |
| Limitation set by the Board of Directors        | 694                       | 694  | 672                   | 672                              |
| The scenario in which the exposure was measured | UP 100                    | UP 100   | UP 100                | UP 100                           |

**The sensitivity of the accounting value index to changes in interest rates in intermediate scenarios.** For details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 67).

**Details of the Group exposure and limitations - reduction in accounting value in intermediary scenarios**

|  | For the quarter ended on |  |                       |                                  |
|--|--------------------------|--|-----------------------|----------------------------------|
|  | September 30, 2017       |  | December 31, 2016     |                                  |
|  | End of quarter           | Maximum exposure during the first three quarters of 2017 | End of reporting year | Maximum exposure during the year |
| in NIS millions                          |                          |  |                       |                                  |
| Actual exposure                          | (326)                    | (502)  | (478)                 | (481)                            |
| Limitation set by the Board of Directors | (771)                    | -  | (700)                 | -                                |

**INDICES AND ADDITIONAL MODELS**

**The Value at Risk (VaR).** For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 67-69).

**Details of the exposure in terms of Total VaR**

|  | For the period ended on  |                                     |                       |                                  |
|--|--------------------------|-------------------------------------|-----------------------|----------------------------------|
|  | September 30, 2017       |                                     | December 31, 2016     |                                  |
|  | End of reporting quarter | Maximum exposure during the quarter | End of reporting year | Maximum exposure during the year |
| Actual exposure                          | 0.9%                     | 0.9%                                | 1.1%                  | 2.1%                             |
| Limitation set by the Board of Directors | 3.0%                     | 3.0%                                | 3.5%                  | 3.5%                             |

**The VaR of trading operations.** The VaR of the trading operations is computed on a daily basis by the parametric method, at a level of significance of 99% and for a time span of one day and of ten days.

The Board of Directors has set specific limits for the VaR on trading activity. No exceptions to the limits were recorded in the second quarter of 2017.

This estimate serves as one of the main tools in the management of the trading activity.

#### Details of the exposure in terms of - VaR in trading activity

|  | For the quarter ended on |                                     | For the year ended    |                                  |
|--|--------------------------|-------------------------------------|-----------------------|----------------------------------|
|  | September 30, 2017       |                                     | December 31, 2016     |                                  |
|  | End of quarter           | Maximum exposure during the quarter | End of reporting year | Maximum exposure during the year |
| in NIS millions                          |                          |                                     |                       |                                  |
| Actual exposure                          | 12.2                     | 18.6                                | 12.5                  | 19.3                             |
| Limitation set by the Board of Directors | 54                       |                                     | 54                    |                                  |

Note:

The VaR is computed at level of significance of 99% and for time span of 10 days.

For additional details, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 68).

#### (4) BASE RISK EXPOSURE

Management of the Bank's base exposures is performed from an economic perspective, taking into account the exposure's implications on accounting fluctuations where the accounting and the economic perspectives do not align. The measurement of the risk is performed through calculating the surplus/shortfall of assets to liabilities after including economic revisions.

The actual management of the exposures is conducted on the basis of economic positions in the various linkage segments, which differ from the accounting positions which may be seen in Note 15 to the condensed financial statements. The principal change stems from the pension liabilities in respect of payroll and additional employee rights from the shekel accounting-measurement segment to the economic-measurement linked segment.

Other changes are: the non-inclusion of losses or gains resulting from changes in the market value of foreign currency or index-linked bonds; the addition of foreign currency fixed assets as financial assets; the transfer of non-performing impaired foreign currency debts to the shekel-linked segment; and the addition of exposure to foreign currency in the severance pay fund for Bank employees (BLD) (only the difference between the severance pay provision and the value of the deposits with the fund is recorded in the accounting positions).

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

The exposure is measured separately for each material currency.

#### Actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)

| Segment          | Limitation | First nine months of 2017 |                   | For the year 2016 |         |          |       |       |
|------------------|------------|---------------------------|-------------------|-------------------|---------|----------|-------|-------|
|                  |            | Period end                | Range of exposure |                   |         | Year end | from  | to    |
|                  |            |                           | from              | to                | average |          |       |       |
| CPI linked       | 25%-(25%)  | 8.0%                      | 8.0%              | 16.4%             | 12.4%   | 15.3%    | 0.4%  | 15.3% |
| Foreign currency | 15%-40%    | 22.3%                     | 22.3%             | 25.4%             | 23.6%   | 25.4%    | 24.2% | 25.4% |

The Group's underlying exposures presented in the above Table is based upon a monthly average. Notwithstanding, exposure management in each material subsidiary is conducted in an effective manner and at least once a week.

The Bank estimates that exposure to the different linkage bases during the first quarter is similar to the average exposure during 2016.

### CAPITAL SENSITIVITY TO CHANGES IN EXCHANGE RATE

Capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity

| Segment                  | For the nine months ended September 30, 2017 |     |       |       |
|--------------------------|--|-----|-------|-------|
|                          | in NIS millions                              |     |       |       |
|                          | 10%  | 5%  | 5%-   | 10%-  |
| USD                      | 315  | 160 | (164) | (330) |
| EUR                      | (9)  | (3) | 6     | 19    |
| Other Foreign Currencies | 34   | 17  | (15)  | (30)  |

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks. The manner of managing the capital of the investment in IDB New York does not expose the Group's capital ratios to significant changes in the exchange rate.

### (5) MANAGEMENT OF POSITIONS IN THE TRADING PORTFOLIO

**Trading portfolios.** The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank's activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while enabling exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

The Bank's dealing room conducts both trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.

The Board of Directors has determined separate sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors' limits are approached and thereby preventing such limits being exceeded.

**Activity in derivative financial instruments.** The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

Market exposure created as a result of transactions in derivative financial instruments, both as regards linkage base and as regards interest rates, is included within the framework of the various limits imposed by the Board of Directors on exposure to linkage base, interest rates and options.

In addition, the Board of Directors has determined the variety of financial instruments available for the transaction of business by the Bank and the mode of the Bank's operation in each of them (whether on behalf of its customers or on its own account), a scope restriction has also been set, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.

The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No deviations from limitations set by the Board of Directors were recorded in the second quarter of 2017.

The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures.

**Activity in the Ma'of market.** The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself. The Bank permits selected customers to operate on credit in the Ma'of market while monitoring closely, on an ongoing basis, the risk involved in the portfolio as compared with security received.

#### Data (accounting) as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

|                                      | September 30, 2017 | December 31, 2016 |
|--------------------------------------|--------------------|-------------------|
|                                      | in NIS millions    |                   |
| Hedging derivatives                  | 1,681              | 3,599             |
| ALM derivatives                      | 37,837             | 175,893           |
| Other derivatives                    | 197,894            | 26,522            |
| SPOT foreign currency swap contracts | 2,695              | 2,051             |
| <b>Total</b>                         | <b>240,107</b>     | <b>208,065</b>    |

**Accounting aspects.** The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof is stated in Notes 1 D 6 and 28 to the financial statements as of December 31, 2016 (p. 145 and pp. 241-248).

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was managed by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value" and are not recognized in the statement of income. Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions".

Details of financing income from derivative financial instruments are presented in Note 3 to the condensed financial statements.

**Option risks.** Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options— regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).

The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices, interests and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").

No deviations from limitations set by the Board of Directors were recorded in the third quarter of 2017.

## (6) THE STANDARDIZED APPROACH TO THE ALLOCATION OF CAPITAL TO MARKET RISKS

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Interest risks and shares resulting from instruments in the trading portfolio. The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York in accordance with the approval of the Supervisor of Banks).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

### Details of capital allocation to market risks according to the standard approach

|                                    | Capital allocation as of |                   |
|------------------------------------|--------------------------|-------------------|
|                                    | September 30, 2017       | December 30, 2016 |
|                                    | In NIS millions          |                   |
| Interest rate risk*                | 335                      | 243               |
| Foreign exchange rate risk         | 52                       | 35                |
| Share risk                         | 4                        | 3                 |
| Option risk                        | 9                        | 32                |
| <b>Total for the Banking Group</b> | <b>399</b>               | <b>314</b>        |
| Allocation in risk asset terms     | 3,146                    | 2,483             |

\* Including the specific risk in the amount of NIS 26 million and NIS 13 million in September 2017 and December 2016, respectively.

The allocation to market risks in risk asset terms comprises 1.95% of the total risk assets as of September 30, 2017, compared with 1.62% as of December 31, 2016.

## SHARES POSITION IN THE BANKING BOOK (TABLE 13)

### STRATEGY AND PROCESSES

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:

- Private equity funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see "Investments in Non-financial companies" under "Activity of the group according to principal segments of operation" in 2016 Annual Report (pp. 381-382).

### Details regarding investments in shares

|   | September 30,   |              | December 31  |
|---|-----------------|--------------|--------------|
|   | 2017            | 2016         | 2016         |
|   | In NIS millions |              |              |
| <b>Investments in shares of affiliated companies<sup>(1)</sup>:</b> |                 |              |              |
| Non marketable shares   | 148             | 151          | 157          |
| <b>Shares in the available-for-sale portfolio:</b>                  |                 |              |              |
| Marketable shares   | 38              | 82           | 110          |
| Non marketable shares   | 799             | 852          | 853          |
| Total shares in the available for sale portfolio                    | 837             | 934          | 963          |
| <b>Total investment in shares</b>                                   | <b>985</b>      | <b>1,085</b> | <b>1,120</b> |

Footnote:

(1) For additional information, see Note 15 to the 2016 financial statements (p. 188)

### Capital requirement regarding share position

|   | September 30, |            | December   |
|---|---------------|------------|------------|
|   | 2017          | 2016       | 31         |
| In NIS millions   |               |            |            |
| In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds <sup>(2)</sup> | 154           | 163        | 171        |
| In respect of investments in other shares <sup>(3)</sup>  | 58            | 59         | 65         |
| <b>Total capital requirement regarding share position<sup>(1)</sup></b>   | <b>212</b>    | <b>222</b> | <b>236</b> |

Footnotes:

- (1) The capital requirement was computed according to 12.7% and does not include capital requirement in respect of investment in shares in the trading portfolio.
- (2) These investments are weighted at risk weight of 150%.
- (3) These investments are weighted at risk weight of 100% and 250%.

## LIQUIDITY AND FINANCE RISKS

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. As this involves an uncertainty situation, in which the liquidity risk always exists, the Bank has determined the limitation of maximum exposure to liquidity risk.

For a quantitative disclosure regarding liquidity and finance risk, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 74-81).

### LIQUIDITY COVERAGE RATIO

For details regarding Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (p. 78).

Between December 31, 2016 and September 30, 2017, the liquidity coverage ratio decreased from 146.5% to 134.1%.

The liquidity coverage ratio is based on a high and quality liquidity buffer. The liquidity buffer is based in shekels on the short-term loan (MAKAM) portfolio, on Israel government bonds and on current account balances and deposits with the Bank of Israel. In foreign currency, the buffer is based on Treasury Bills, U.S. government bonds (in IDB New York on the MBS portfolio, most of which issued by government and semi government agencies) and on current account balances and deposits with the Bank of Israel and the FED.

#### Details of the composition of the liquidity buffer (average for the quarter)

|                 | Assets included                              | For the period ended |                   |
|-----------------|--|----------------------|-------------------|
|                 |  | September 30, 2017   | December 31, 2016 |
| in NIS millions |  |                      |                   |
| Buffer 1        | Cash   | 19,072               | 16,573            |
|                 | Israel Bonds/Short-term loans (MAKAM)        | 21,119               | 21,599            |
|                 | Foreign bonds                                | 3,876                | 3,620             |
| Buffer 2        | Sovereigns bonds                             | 248                  | 145               |
|                 | Mortgage bonds issued by public corporations | 1,119                | 1,419             |
|                 | Corporation Bonds AA                         | 854                  | 1,541             |
| Buffer 2 b      | Corporation Bonds A                          | 79                   | 66                |
| <b>Total</b>    |  | <b>46,367</b>        | <b>44,963</b>     |

The computation of the Group liquidity coverage ratio is based on an independent calculation of each of the Group companies. The Bank's Management has defined for each Company in the Group a minimum target for the liquidity coverage ratio. The transfer of liquidity from IDB New York to its parent company is limited by local regulation, and therefore, the recognition of surplus liquidity of IDB NY (over 100%) in the group model, is limited accordingly. The surplus of Mercantile Discount Bank, which operates within the same jurisdiction as the Bank, is included in the Group model.

Most of the liquidity surplus of the Group originates in the liquidity surplus of the Bank.

#### Distribution of the liquidity coverage ratio (average for the quarter) according to the legal entities within the Group

|                          | For the period ended  |                      |
|--------------------------|-----------------------|----------------------|
|                          | September 30,<br>2017 | December<br>31, 2016 |
|                          | In %                  |                      |
| Discount Group           | 134.1%                | 146.5%               |
| The Bank                 | 152.5%                | 178.1%               |
| IDB New York             | 117.1%                | 111.3%               |
| Mercantile Discount Bank | 146.7%                | 142.0%               |
| <b>Discount Group</b>    | <b>134.1%</b>         | <b>146.5%</b>        |

Concentrating the liquidity surplus at the Bank allows for higher flexibility in the management of the Group's liquidity. Alongside the expectation for the independent management of the liquidity risk by the subsidiaries, the Management of the Group is able to shift liquidity between the companies in the Group.

**The liquidity coverage ratio in the principal currencies.** The Bank measures also the liquidity coverage ratios in the principal currencies. As of September 30, 2017 the coverage ratio in shekels was 125.8% compared with 147.9% at December 31, 2016. The main factors leading to the decrease in the ratio were: Growth in the credit portfolio, which was partly offset by a growth in deposits from the public, as well as from obtaining shekel liquidity from shekel/foreign exchange SWAP transactions.

In the total of foreign currencies, the liquidity coverage ratio at September 30, 2017, amounted to 133.9%, compared to 169.2% at December 31, 2016. The main factor leading to the decline in the ratio was the transfer of liquidity due to shekel/foreign currency SWAP transactions.

In U.S. dollars, the liquidity coverage ratio at September 30, 2017, was 124.4% compared with 144.1% at December 31, 2016. The main factor leading to the decrease in the ratio was transfer of liquidity in swap transactions between US dollars, Shekel and Euro.

In Euros, the liquidity coverage ratio at September 30, 2017, was 285% compared with 152% at December 31, 2016. The main factor leading to the decrease in the ratio was transfer of liquidity in swap transactions mainly Euro to US dollars and Shekel.

The Discount Group has a surplus of resources in foreign currency over applications, principally in U.S. dollars and in Euro. Accordingly, the Bank, in addition to investing in assets of the liquidity and credit buffers, invests also its surplus liquidity in bank deposits and in the interbank SWAP market. This activity allows the Bank to regulate the use of this surplus between liquidity considerations and yield considerations.

## LIQUIDITY COVERAGE RATIO (TABLE 16)

|   | For the period of three months ended |                                |                                    |                                |
|---|--------------------------------------|--------------------------------|------------------------------------|--------------------------------|
|   | September 30, 2017                   |                                | December 31, 2016                  |                                |
|   | In NIS millions                      |                                |                                    |                                |
|   | Total non-weighted value (average)   | Total weighted value (average) | Total non-weighted value (average) | Total weighted value (average) |
| <b>Total high quality liquid assets</b>   |                                      |                                |                                    |                                |
| Total high quality liquid assets (HQLA)   |                                      | 46,368                         |                                    | 44,963                         |
| <b>Cash outflows</b>  |                                      |                                |                                    |                                |
| Retail deposits from individuals and small businesses, of which:  | 113,535                              | 7,025                          | 108,153                            | 6,718                          |
| Stable deposits   | 34,263                               | 1,676                          | 31,522                             | 1,533                          |
| Less stable deposits  | 40,512                               | 4,185                          | 40,663                             | 4,214                          |
| Deposits for periods exceeding 30 days (Section 84 of Proper Conduct of Banking Business Directive No. 221)         | 38,760                               | 1,163                          | 35,968                             | 971                            |
| Unsecured wholesale financing, of which:  | 59,543                               | 37,114                         | 52,368                             | 32,709                         |
| Deposits for operational purposes (all counterparties) and deposits with chains of cooperative banking corporations | 5                                    | (1)                            | 2                                  | (1)                            |
| Deposits not for operational purposes (all counterparties)  | 56,543                               | 37,019                         | 51,893                             | 32,694                         |
| Unsecured debts   | 2,995                                | 93                             | 473                                | 14                             |
| Secured wholesale financing   |                                      | 3                              |                                    |                                |
| Additional liquidity requirements, of which:  | 61,234                               | 14,703                         | 62,239                             | 14,260                         |
| Cash outflows in respect of exposure to derivatives and other collateral requirements                               | 7,781                                | 7,609                          | 11,576                             | 7,406                          |
| Cash outflows in respect of loss of financing of debt products  | -                                    | -                              | -                                  | -                              |
| Credit and liquidity facilities   | 53,453                               | 7,094                          | 50,663                             | 6,854                          |
| Other contractual financing commitments   | 15,840                               | 645                            | 15,432                             | 536                            |
| Other conditional financing commitments   | 2,502                                | 76                             | 2,474                              | 75                             |
| <b>Total cash outflows</b>  |                                      | <b>59,566</b>                  |                                    | <b>54,299</b>                  |
| <b>Cash inflows</b>   |                                      |                                |                                    |                                |
| Secured loans (e.g., Reverse repo transactions)   | 1,295                                | 1,295                          | 2,192                              | 2,192                          |
| Cash inflows from regularly performing exposure   | 20,867                               | 16,184                         | 19,694                             | 14,777                         |
| Other cash inflows  | 8,627                                | 7,500                          | 7,435                              | 6,633                          |
| <b>Total cash inflows</b>   | <b>30,789</b>                        | <b>24,978</b>                  | <b>29,321</b>                      | <b>23,602</b>                  |
|   |                                      | Total adjusted value           |                                    | Total adjusted value           |
| <b>Total High Quality Liquidity Asset (HQLA)</b>  |                                      | <b>46,368</b>                  |                                    | <b>44,963</b>                  |
| <b>Total net cash outflows</b>  |                                      | <b>34,588</b>                  |                                    | <b>30,697</b>                  |
| Liquidity Coverage Ratio (%)  |                                      | 134.1%                         |                                    | 146.5%                         |

Footnote:

(1) Amount lower than NIS 1 million.



## FINANCING RISK

Financing risk is the risk of creating a resources structure that is not stable enough in the long-run, to serve the planned applications. This risk is managed by way of determining an annual financing strategy, one of the cornerstones of which is the determination of long-term goals with a viewpoint of several years, including the determination of goals in respect of the long-term composition of the resources, from the viewpoint of the Bank, of each of the subsidiaries and of the Group. For details, see above.

### FINANCING RISK – AVAILABLE AND UNRESTRICTED ASSETS

The Bank pledges assets belonging to the liquidity buffer for several purposes, with an emphasis for use as collateral for financial transactions with entities as the Stock Exchange, the Ministry of Finance, etc. As a general rule, all pledged liquid assets are excluded from the liquidity buffer for the purpose of the daily measurement, except for assets pledged to secure the ability to realize liquidity, which in fact has not been utilized. These are being excluded only upon utilization. On the side of collateral received by the Bank, such assets are no recognized as part of the Bank's liquidity buffer.

|                                 | September 30,<br>2017 | December<br>31, 2016 |
|---------------------------------|-----------------------|----------------------|
|                                 | in NIS millions       |                      |
| Total assets                    | 60,945                | 65,237               |
| Liquidity requirement           | 5,557                 | 5,522                |
| Of which pledged                | 5,363                 | 6,392                |
| Of which provided as collateral | 711                   | 439                  |
| <b>Total available assets</b>   | <b>49,314</b>         | <b>52,883</b>        |

## OPERATIONAL RISKS

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events.

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

For additional details regarding operational risks, including risk of fraud and embezzlement and business continuity, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 81-85).

## OTHER RISKS

### A NEW DRAFT DIRECTIVE IN THE MATTER OF "SUPERVISION OVER OVERSEAS EXTENSIONS"

The Supervisor of Banks published on September 27, 2017, a new draft Directive in the matter of "supervision over overseas extensions". This Directive, which is added on existing guidelines in the matter and on a central directive of 2015 regarding risk management relating to cross border operations, requires banking corporations to re-examine and define their overseas operation strategy, as well as requires them to strengthen control over their overseas extensions, by applying risk management mechanisms and internal and external audits.

The Directive contains new requirements for the focusing of the overseas operations and for the strengthening of risk management at the overseas extensions, alongside the pooling and pointing out the central principles relating to group risk management and to the supervision over overseas extensions, contained in the existing directives.

The principal points of the new Directive are:

- A banking corporation shall redefine its operation strategy for its overseas extensions as well as the risk appetite for such operation. In this framework, it has to decide in which country it is interested in conducting business, what is the type of business to be conducted at each extension, and what should be the minimal size of the extension allowing risk management in a proper manner and compliance with local laws and regulation; where the present operation does not agree with the strategy, the banking corporation has to prepare an exit plan.
- A banking corporation is required to intensify and improve its control over the overseas extensions. This is to be achieved by existing tools for risk management on a group basis as well as by applying new tools. Inter alia, a banking corporation should:
  - Verify that the risk management, control and audit layouts at the parent company are conducted on a Group basis, including evaluation of their effectiveness in relation to the operations of the extensions;
  - Verify the existence of external audits at the extensions by factors having the relevant local expertise in the country of operation, which would audit on a periodic basis, compliance and risk management at the extension and would examine its fulfillment of the standards required by the local legislation and regulation.
  - Verify that the different functions at the extension, including risk management and compliance factors, are manned by professionals having the relevant expertise and knowledge.
  - Define a function at the banking corporation in Israel, which would be responsible for gathering and analyzing the information regarding the overseas extensions, so that the Board of Directors and Management of the banking corporation would have a complete and up-to-date picture of the extensions and their risk evaluation.
- The banking corporation is required to take extra care regarding issues of compliance risk management and prohibition of money laundering and finance of terror risks management, focusing on compliance risk management from the aspect of the transparency required in the management of customer accounts, and in particular: prohibition on the opening and management of numbered accounts and accounts identified by a code or a false name; and also on the manner of the treatment: in trusteeships, off-shore companies and operations where the credit is secured by deposits made by related parties ("back-to-back"). At the level of each extension, the banking corporation has to verify that operations of this kind are conducted only after the economic or business *raison d'être* of the manner of incorporation of the customer or the manner of his operations had been examined and understood in full, including obtaining supporting documentation, and only after the measures required by the local legislation and regulation and by directives of the Supervisor of Banks in Israel had been applied.
- The list of events taking place at overseas extensions and which require reporting to the Supervisor of Banks has been expanded.

As already stated, the Bank has closed down in recent years most of its overseas extensions. As of the present time, the Bank has one foreign extension – IDB New York.

## DATA AND CYBER PROTECTION RISKS

### THREATS IN THE CYBERSPACE

In the third quarter of 2017, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

For additional details regarding data protection and cyber defense risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 87-89).

## INFORMATION TECHNOLOGY RISKS

**Proper Conduct of Banking Business Directive No. 362 in the matter of "Cloud computing"**. The Supervisor of Banks published on July 6, 2017, a Directive in the matter of cloud computing. The Directive is aimed at facilitating the operations of banking corporations by means of cloud services, this, with the understanding that the use of this technology would promote the development of innovative applications and shorten their integration period, thus improving service to customers and savings in expenses. This Directive replaces the letter of the Supervisor of Banks on the subject issued in 2015.

## COMPLIANCE RISKS

### PROHIBITION OF MONEY LAUNDERING AND TERROR FINANCING

**Discount Group's activities with banks acting in the Palestinian Authority.** On May 1, 2016, the Bank applied to the Supervisor of Banks and to the Director General of the Ministry of Finance and again made a request to discontinue providing services to Palestinian banks, including discontinuing representing them at the interbank shekel clearinghouse. Alternatively, the Bank sought to receive an appropriate solution to the risks involved in the aforesaid activity.

In December of 2016, the Bank approached the Bank of Israel and the Director General of the Ministry of Finance, repeating its request, as stated, and informing of its decision to discontinue the supply of cash services to the Palestinian banks. During the course of January 2017, the Bank informed the Palestinian Banks of its decision to discontinue the engagement with them in everything related to the supply of cash services. In March 2017 the Bank became aware of discussions being held with respect to the formation of tools hedging against the risk involved in providing services to the Palestinian banks, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims.

Following additional addresses made by the Bank to the Ministry of Finance as regards the said letter of indemnification, a draft letter of indemnification has recently been presented to the Bank.

With respect to the announcement of the Bank made to the Palestinian banks regarding the discontinuation of cash services, this following an approach by the Bank of Israel and following a presentation of an outline for providing cash services to the Palestinian banks with the involvement of the Bank of Israel, using the cash center of the Bank, the Bank has decided to grant an extension for the continuation of the cash operations.

**Petition to the High Court of Justice.** The 2016 annual report (p.101) discussed a petition submitted against the Minister of Finance and the Director General of his office in the matter of indemnification granted to banks in connection with their business relations with banks operating in the Palestinian Authority. Following the suggestion of the Supreme Court to the Petitioners to withdraw their petition, while preserving their arguments in full, due to the fact that the time is not yet ripe to deal with their petition, the Petitioners had filed a motion requesting a hearing of their petition. The hearing of the petition was fixed for May 10, 2018.

For further details regarding compliance risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (pp. 91-96).

For additional details regarding other risks, see the document regarding "Disclosure according to the third pillar of Basel and additional information regarding risk", which was published as part of the 2016 Annual Report, and is open for review on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd. (and including environmental risks – p. 89, legal risks – pp. 89-91, conduct risks – p. 96, exposure to cross-border risks in respect of the activities of foreign resident customers – pp. 96-100; strategic risk – p. 100, reputation risk – pp. 100-101).

Dr. Yossi Bachar  
Chairman of the  
Board of Directors

Lilach Asher-Topilsky  
President &  
Chief Executive Officer

Avi Levi  
Senior Executive Vice President  
Chief Risk Officer

November 14, 2017

## Glossary

|                                |  |
|--------------------------------|--|
| Management quality             | Assessment of the appropriateness and effectiveness of risk management (effectiveness of the controls).  |
| Key Risk Indicator             | Means/pointer showing the risk exposure situation in relation to the risk.   |
| Failure event                  | An event where risk is realized, whether or not causing damage to the Bank.  |
| Gross credit                   | Balance sheet or off-balance sheet credit, before credit risk mitigation (CRM), before conversion to credit (CCF) and before allowances for credit losses.<br>Includes: unutilized binding facilities, guarantees, documentary credit and derivatives.   |
| Off-balance sheet credit       | Binding facilities - any presentation by the corporation to its customer for the granting of credit (balance sheet and/or off-balance sheet) whether in writing or orally or in another manner of conduct where it can be expected that a reasonable customer would rely on such presentation as one which binds the Bank.   |
| Balance sheet credit           | Credit (to the public, governments) and bonds.   |
| Collateral                     | Different assets (marketable and nonmarketable) designated to secure the repayment of customer debts, when the customer defaults on the current repayments agreed between him and the Bank.  |
| Credit Risk Mitigation (CRM)   | Items offsetting risk permitted according to the rules of Basel II (mainly: liquid collateral pledged as required). According to these rules, the Bank, when computing the capital requirements, may reduce its credit exposure to the counterparty, thus taking into consideration the effect of the collateral.  |
| Allowances for credit losses   | A provision created by the Bank to cover possible losses on its customer indebtedness. The Bank of Israel guidelines require that specific and group provisions should be created.<br>Allowance for credit losses on a specific basis - an allowance required to cover expected credit losses in respect of debts examined on a specific basis and found to be impaired.<br>Allowance for credit losses on a group basis - an allowance in respect of large groups of debts (performing and nonperforming) including allowances for credit losses in respect of housing loans measured by the "extent of the arrears period" method. |
| Debt under special mention     | A debt having potential weaknesses that require special attention by the Management. If such weaknesses remain unattended, the result might be deterioration in the prospects of repayment of the credit, or in the Bank's status as a creditor.   |
| Substandard debt               | A debt insufficiently secured by the present value based on the collateral and the repayment ability of the debtor, creating a clear possibility that the Bank will sustain a certain loss if the deficiencies are not rectified. It is required that the weakness endangering the repayment of the debt should be well defined.   |
| Impaired debt                  | A debt the Bank estimates it will not be able to collect the amounts due to it and in the due dates per the debt agreement.  |
| Liquidity coverage ratio (LCR) | The ratio of total high quality liquid assets to total net cash outflows during the next thirty calendar days.   |
| Business goal                  | A defined business target in quantitative or qualitative terms, subject to restrictions of the risk appetite.  |

## Glossary (continued)

|                                    |   |
|------------------------------------|---|
| Recorded amount                    | The balance of a debt, including recognized accrued interest, unamortized premium or discount, differed commissions or deferred costs charged to the debt and not yet amortized, after deduction of any amount written off accounting wise. Non-recognized interest, or interest which had been recognized in the past and reversed at a later date, should not be included in the recorded amount.   |
| Uniform macro-economic stress test | A stress test published by the Supervisor of Banks, based on a uniform scenario for all the banking industry and on macro-economic parameters formed by the Regulator   |
| Sensitivity tests                  | A method which assesses the effect of a change in a single risk factor, or in a number of risk factors, on the financial condition of the banking corporation (for example: in market risk - steep decline in interest rate; in credit risk - steep decline in housing prices).   |
| Restriction (internal)             | A statement determined by the Bank, setting out a limit to activity within the framework of the risk appetite.  |
| Capital outline                    | A detailed plan of the capital ratios forecast for the coming years, which includes the assumptions used for the forecast, a description of the expected implications in the capital layers and capital ratios, sensitivity analysis regarding the principal risks, and conformity by the Bank with the capital targets. The capital outline serves as a basis for the determination of a recommendation to the Management and to the Board of Directors regarding the capital targets of the work plan, including the capital buffer, the risk asset budget, capital issuance and dividend distribution. |
| Over the counter (OTC) derivatives | Transactions in derivatives not traded on a formal stock exchange, to which the Bank is a party.  |
| Monitoring of capital ratios       | Monitoring changes in risk assets and in the capital base of the Group, and an assessment of attaining the capital targets as determined by the Board of Directors.   |
| Alert levels                       | Intended to indicate exposure to risk when it reaches a certain level below the stated restriction.   |
| Risk profile                       | Assessment of the combined risk inherent in the exposures and in the activity of the Bank   |
| Risk appetite                      | Reflects the level of risk a corporation is ready to accept, consistently with its business strategy, capital planning, liquidity planning and financing resources of the corporation. The risk appetite includes quantitative restrictions and qualitative goals, which outline the determination of the group business policy in the various risk fields, and comprises a central tool of the Board of Directors for the supervision and control of the risk profile of the corporation.  |
| Available-for-sale portfolio       | Securities not classified as bonds held to maturity or as trading securities.   |
| Trading portfolio                  | Composed of positions in financial instruments held with the intension of trading, for the purpose of resale within a short period of time, and/or with the intent of earning gains from actual or expected changes in prices in the short-term or of realizing arbitrage gains. In order for a financial instrument to be considered part of the trading portfolio, it has to be free of any encumbrance on its marketability, or that it may be hedged in full.   |

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## Glossary (continued)

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|--|---|
| Held-to-maturity portfolio                             | Securities in respect of which the Bank has the intention and ability to hold them for a long period of time/to maturity. The portfolio is stated at the rate of return to maturity inherent therein since purchase date.   |
| Stress tests   | A risk management method used to assess the potential effects of a specific event and/or a change in a set of financial variables on the financial condition of a banking corporation. Traditionally, the focus of stress tests is on exceptional events though reasonable.   |
| Credit conversion factors (CCF)                        | Conversion of off-balance sheet items to credit equivalents - according to the standard approach of Basel II, off-balance sheet items are converted to equivalent credit exposure by means of credit conversion coefficients  |
| Credit support annex (CSA)                             | An Annex to the ISDA which regularizes the matter of collateral regarding derivative transactions against the counterparty. This Annex determines a threshold amount reflecting the maximum exposure which each of the counterparties is ready to accept without collateral.  |
| International Swaps and Derivatives Association (ISDA) | An international agreement which allows the setting off of liabilities and mutual requirements stemming from over the counter derivative transactions, in the case of insolvency of a counterparty.   |
| Foreign Account Tax Compliance Act (FATCA)             | In order to reduce tax evasion by American taxpayers, the Foreign Account Tax Compliance Act (FATCA) was enacted in 2010 in the United States. Under the FATCA provisions, financial bodies outside the US are required to identify and report to the U.S. Tax Authorities, any U.S. citizen or any U.S. resident having a financial account with them. This Regulation entered to effect on July 1, 2014. The Regulation is being implemented in many countries, including Israel, within the framework of an inter-state treaty signed by Israel and the United States. |